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EDITORIAL

As We See It

Congress, the politicians and through them the American public appeared last week to be making progress toward the facts of life in the matter of balancing the Federal budget. Surprising as it may seem, the fact that the task of bringing fiscal soundness to a situation which has been permitted to run riot for a generation is proving difficult and time consuming comes apparently as a shock to a good many who should know better. Some division of opinion and a certain confusion of thought remain, of course, but it would appear that many who had been dreaming were by the end of last week perceptibly nearer realism than they had been. This is all to the good, and, it is to be hoped, marks a beginning of real progress.

The tendency to confuse appropriations in any given period with actual expenditures during the period remains. Obviously, excess of expenditures over receipts in any given period is what constitutes a deficit for that period and such a deficit during the coming fiscal year is what is said to be threatening to force a further enlargement of the debt limit. Most of what the President has been talking about of late has had to do with reducing the amounts which Congress need appropriate during the year beginning July 1 next. Some of the funds will, of course, be expended during the year; some of them will not be so expended in that period; and such expenditures as are made from these appropriations will be supplemented by appropriations of former years.

Confusion is, perhaps, natural so far as it is confined to those who have not taken the trouble to inform themselves fully about a rather complex and somewhat technical subject. It is unfortunate,

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Is U. S. Economy Depression Proof?

By MELCHIOR PALYI

Dr. Palyi, asserting that depression or no depression is not a matter of moral philosophy or patriotic sentiment, or even a question of basic economic strength, holds business cycles are integrated with economic growth, and that the American economy is not only capable of producing a depression, but is well prepared for it. Cites six major differences in current situation as contrasted with that of end of World War II, and contends relaxation in global tension and reduced armaments may have serious psychological repercussions. Says "outbreak of peace would be quite a shock," since we have nurtured a colossal vested interest in armaments. Foresees no early end of cold war.

The obvious should not be restated unless it is being questioned. Such is the case with respect to the query: What effect would "peace" have on the American economy? Even an organ of solid economic opinion such as the "Wall Street Journal" came out emphatically against what it considers apparently as a ridiculous idea—that peace could be bad and war "good." The occasion was perfect for waving the flag of economic patriotism and moral indignation, wrapped in one.

Dr. Melchior Palyi

It is embarrassing to remind people with economic education of the fact that depression or no depression is not a matter of one's moral philosophy or patriotic sentiment, nor even of the country's basic economic strength and health. One people who need not worry about depression are the Papuans in the interior of New Guinea. They have no credit structure and therefore no credit crisis. They keep no inventories which could depreciate when world market prices tumble. In fact, they do not even keep

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The Market Ahead

By KENNETH WARD
Partner, Hayden, Stone & Co.,
Members, New York Stock Exchange

Market analyst maintains current market setback with accompanying bearish "explanations" reflects sudden injection of uncertainty. Cites as bullish factors: excellent earnings, anticipated lower taxes, historically low dividend payout, low earnings-yields, and high asset values. States technical indications favor another important advance with D-J recovery to 288-290 level. Lists specific issue recommendations for selective market.

In making an appraisal of the present and future stock market, it would seem logical to draw on background material for comparative analysis action. First of all we must recognize the rather abrupt sell-off last March and April as an emotional reaction to a reorientation of the nation's thinking that the economy will revert to a predominately peace basis. Such emotional reversals on the part of the market are not uncommon. The fall of France in 1940, Pearl Harbor, the election jitters of 1948 and the outbreak of the Korean War have all occasioned temporary reactions in a fundamental strong market uptrend. However, as has been subsequently proved in each case, these setbacks were all generously discounting uncertainty of one kind or another, not a real change in the basic economic health of the country, and not only were all losses recovered but substantial gains were witnessed within a reasonable period of time.

Kenneth Ward

An unexpected news event happened again this year. The recent 25-point decline in the Dow-Jones industrials from a top in January of 295 to 270 touched off by surprise peace overtures and accompanied by several days of heavy volume and sharp daily declines, reflected the uncertainty felt by many stockholders over the implications of a Korean armistice. These fears of sharply reduced armament expenditures by the Department of

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STANY PICTURES IN THIS ISSUE—Candid shots taken at the 17th Annual Dinner of The Security Traders Association of New York, Inc., at Waldorf Astoria on May 8, appear in the Special Section starting on page 25.

The Security I Like Best

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

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

This Week's Forum Participants and Their Selections

Cockshutt Farm Equipment Limited Common Stock — A. Jervis O'Donohoe, A. F. Francis & Co., Ltd., Toronto, Canada (P. 2)

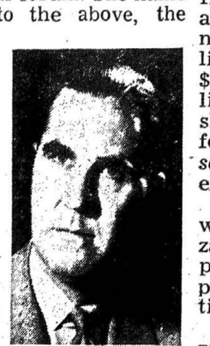
Universal Match Corporation—Clarence E. Unterberg, C. E. Unterberg & Co., New York. (Page 2)

A. JERVIS O'DONOHOE

A. F. Francis & Company Limited, Toronto, Canada

Cockshutt Farm Equipment Limited Common Stock

In 1951 I had the pleasure of writing about Cockshutt Plow Common in your forum. The name has changed to the above, the company has changed—for the better—but my love for it has remained steadfast!



A. J. O'Donohoe

Cockshutt Farm Equipment Limited Common is listed on the American Stock Exchange (trades very infrequently) and in Montreal, Toronto and London, England, the latter since there are some 100,000 shares held in Europe. Cockshutt Common is not a stellar market performer and is recommended purely for its unusual intrinsic worth and future prospects. Over a period of time long-sighted investors have found that the purchase of inherent value at a discount always results in a cash premium for the patient.

It is financially fashionable today to decry farm equipment stocks. For that reason Cockshutt is now selling at $4.00 per share less than a year ago. This despite the fact that the company established a new sales record in 1952 and is one of the few companies in Canada to have increased its earnings in the same year.

Cockshutt is the second largest Canadian manufacturer of farm equipment. At its plants in Brantford and Smiths Falls, Ontario, the company makes a full line of farmers' requirements including harvester combines and tractors. New lines are constantly being added. Recent developments include a rice combine, forage harvester, new pull-type combine, and a larger tractor. Company engineers designed the first modern farm tractor to be produced in Canada.

An important subsidiary, Brantford Coach and Body, manufactures truck and dump bodies, trailers, sanitary vans, etc.

Cockshutt Aircraft Limited, operating a government-owned plant at Renfrew, Ontario, for the manufacture of jet engine components, is also wholly owned. The company is fully experienced in the handling of government work, particularly as it applies to aircraft. Cockshutt Aircraft Limited, however, is a comparatively new venture and its 1952 sales were not included in the parent company's statement. Much preparatory work was done in expectation of a substantial increase in sales during 1953, while the removal of defense business to Renfrew freed up space urgently needed for the expanding operations at Brantford.

During 1952 Cockshutt also acquired the plant and inventory of National Farm Machinery Co-Operative Inc., Bellevue, Ohio, for $2.5 million. The corn-planting and harvesting machinery made here form a new line for Cockshutt, and the whole Bellevue operation will permit a more extensive and intensive cultivation of the American market.

Cockshutt distributes in Canada through sales branches and warehouses to over 1,000 dealers and in the United States through Regional Co-Ops and independent agents. The company also has business in Central and South America and export distributors in 50 other countries.

Before the late war Cockshutt—now over 100 years old—was a small company in the implement field making only the lighter—and also lighter profit—items. Annual sales never exceeded $9 million (*operating profit* in 1952 was $9.4 million and sales $57.4 million!). And by the way Cockshutt showed a sales increase of 31.4% for last year—*with no defense sales*—decidedly against the general trend of the industry.

All this has been accomplished without any inflating of capitalization. Earnings have been "Implemented" back and large tax-paid reserves established. The statistical background follows:

CAPITALIZATION

First mortgage bonds:	
Due 1954/56 and 1965	$4,375,000
*5% conv. debentures due 1968	5,000,000
Common stock (shares)	1,068,100

*Convertible into 60 shares per $1,000 until Feb. 1, 1956; 50 shares until Feb. 1, 1959; and 40 shares until Feb. 1, 1962.

RESERVES

		Per Share
Contingent	$2,500,000	$2.34
Inventory	2,250,000	2.10
Receivables	750,000	0.70
Deferred income	1,210,000	1.14
	$6,710,000	$6.28

WORKING CAPITAL

Cash	$2,120,000
Receivables	10,010,000
Inventories	22,520,000
	$34,650,000
Less all current liabilities	8,070,000
Net current assets	$26,580,000
Per share	$24.90

If working capital reserves of $3 million were added to the foregoing a figure of $27.70 per share would result excluding debt. Offsetting the bonds against the fixed assets, a bonus of $12.70 per share in working capital is thrown in to a purchaser buying the stock at $15.00.

FIXED ASSETS

Net depreciated fixed assets are carried at $6.77 million. However, an appraisal during 1952 evaluated these assets at $32.14 million replacement price, and $24.03 million depreciated value. Plant and equipment are modern. During 1952 alone plant expenditure totaled $1.89 million.

SALES

1952	$57,000,000
1951	44,000,000
1950	40,000,000
1949	47,000,000
1948	42,000,000
1943	20,000,000

Of the above approximately 60% were Canadian sales and the balance to U.S.A. and other countries.

EARNINGS

(000's omitted)

	After Reserves	Per Sh. now o/s	Before Reserves	Per Sh. now o/s
1952	$2,883	$2.70	$2,883	$2.70
1951	2,247	2.10	†2,647	2.48
1950	2,033	1.90	‡3,958	3.70
1949	2,070	1.93	§3,070	2.87
*1948	2,062	1.93	¶2,962	2.77

* Eleven months.
† $400,000 Transferred for Past Service Pension.
‡ 750,000 Transferred to Reserve for Doubtful Debts.
1,175,000 Deferred Income on Sales to Dealers.
§ 1,000,000 Transferred to Inventory Reserve; approximately $1,000,000 income taxes paid on earnings of previous years.
¶ 900,000 Transferred to Conting. Res.

In common with all companies Income Taxes have had a real impact on Cockshutt's earnings, rising from $2.72 million in 1950 to $3.83 million in 1952.

Currently the stock is selling under six times earnings.

So far 1953 sales are, I believe, running slightly below last year. Obviously a great deal will depend on the western Canadian wheat crop and it is too early to speculate about this. We do know, however, that last year's was a record crop and the farming community has plenty of cash for implement purchases. In addition, western Canadian farmers are now receiving about $80 million cash against past deliveries to the wheat board. Purchase of farm equipment in Canada through bank accommodation under government guarantee is relatively easy. While Cockshutt, in effect, must finance its dealers' inventories, once they pass into the hands of the consumer the transaction becomes virtually cash. The days of the never-never-or-little-by-little note system are over.

Cockshutt management is able, vigorous, experienced and financially conservative. The company has had no strikes or other labor trouble with its 4,500 employees. Fully unionized, it has a pension plan and other normal present-day benefits.

I regard Cockshutt as the growth company in the farm equipment field. It is the smallest of the large companies and it has come a long way—*soundly*—in a short time. The total North American market for implements is about $2.5 billion annually. The annual replacement and spare parts market alone is huge. Farmers need equipment to increase production and cut costs. Labor is short, food must be produced, and the surplus food once available from the "Iron Curtain" countries has disappeared. In backward areas of the world, implements are even more in demand as countries seek to become self-sufficient in food production. No industry is bomb-proof, or unaffected by business trends, but fundamentally an industry producing equipment to grow more food in a world with a constant land space but ever increasing population must be sound.

Not only will Cockshutt grow with the industry but it should secure a larger share of the cake. If, over a period, by the development of new lines, Cockshutt is able to secure an additional $1\frac{1}{2}\%$ of the North American market, this would bring sales close to the $100 million mark. Under such circumstances I would look for earnings of $6.00 to $7.00 per share and a valuation of well over twice the present market of $15.00 per share. Paying $1.00 the current yield on these shares is 6.66%. I regard them as an excellent businessman's investment for capital appreciation.

For institutions and more cautious natives of the Dominion the convertible bonds yielding over 4.95% at $100\frac{1}{2}$ with a 9 year call on the common stock are strongly indicated.

CLARENCE E. UNTERBERG

C. E. Unterberg & Co., N. Y. City

Universal Match Corp.

The shares of the Universal Match Corporation are currently selling at approximately $19 per share. In my opinion the 1952 income statement and balance sheet at least justifies this price. In addition, I believe, that the $19 figure does not adequately reflect the strides made by the company under the new management which has been in office for somewhat over a year.

C. E. Unterberg

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Principles of Treasury Policy

By W. RANDOLPH BURGESS*

Deputy to the Secretary of the Treasury

Former prominent New York banker, now Deputy to the Secretary of the Treasury, says first rule should be for government to sell its securities at the going rate of interest, and a second rule is that securities should be sold to non-bank investors. Tells why Treasury decided to issue 30-year 3¼% bonds.

The question of how Government should borrow money is many centuries old. Should they borrow from investment bankers as the kings did from the Rothschilds, should they borrow from the banks, or should they go to the people, as in our great war loan drives? Should they "rig the market" so as to borrow very cheaply?

W. R. Burgess

The new Administration is fortunate in having for its guidance two recent Congressional inquiries into this subject by subcommittees of the Joint Committee on the Economic Report. The subcommittee of 1950 was headed by Senator Paul Douglas, that of 1952 by Congressman Wright Patman. Both committees agreed on certain conclusions. One was that the Federal Reserve System should be free "to restrict credit and raise interest rates for general stabilization purposes—even if the cost should prove to be a significant increase in service charges on the Federal debt."

The reports and the testimony brought out the fact that when the Treasury meets a deficit by borrowing from the banks it is inflationary—creates more money—tends to raise the cost of living.

Bank borrowing may be cheap in terms of interest cost to the Treasury. But it is exceedingly expensive for the country as a whole, as all Americans who have been hurt by inflationary prices, in the past decade should know.

The reasons are simple but deserve spelling out.

When the Treasury sells short-term securities to banks the money supply is increased by the amount of the borrowing. There is more money—but there is no increase in the things people can buy for their own use. Borrowing outside of the banks, on the other hand, reaches genuine savings. Money which might have gone into other investment outlets goes instead into Governments. The Treasury competes for available loan funds rather than creating new money.

This avoids inflation—it keeps the price of food, clothing, and shelter from going up.

These simple principles constitute the bases for the program of the Treasury Department for financing the public debt. It was the violation of these principles by the previous Administration which was one of the major causes of inflation in the cost of living which cut the buying power of a dollar in half since just before World War II. The policy of financing the government by placing short-term securities in the banks and then calling upon the Federal Reserve System to support the price of government securities in the market had much the same effect as printing so much money. It made it impossible for the Federal Reserve System to exercise its statutory duties towards stabilizing the economy for the benefit of the people.

The first rule of Treasury policy today is that the Federal Reserve System shall be free to exercise its policy without interference.

This means of course that the Treasury must sell its securities in the market at the going rate of interest and not at an artificial rate supported by the Federal Reserve System.

The second rule is that more government securities must be sold to non-bank investors. Too much of the debt is now concentrated in the banks. This cannot be changed abruptly; but over a period gradually it is proposed to distribute the debt more widely as a necessary step for economic stability.

The sale of long-term bonds to investors, of course, carries a somewhat higher interest rate than the sale of short-term securities to banks. But this cost will be offset many times over if it lessens the risk of inflation—higher prices for all—or deflation, which has often meant depression. It should be noted that the larger interest payments which the Treasury will be making on these bonds will be going principally to insurance companies, savings banks, pension funds and individuals, and will benefit in this way millions of families who have been damaged by inflation and by inadequate return on their savings because of artificially low money rates.

Why 3¼% Bonds Were Issued

These, then, are the principles of the Treasury in its new program of financing. I can perhaps best illustrate how these principles work by telling you why and how we decided to issue a billion dollars of 30-year 3¼% bonds.

To finance the deficit up to June 30, we needed at least two billion dollars of new money. We had two choices. We could have borrowed it all from banks—on short-term at fairly low rates. That would have increased the money supply—run the risk of further inflation—further cheapening of the dollar, with all of us

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*Remarks by Mr. Burgess before the 33rd Annual Conference of the National Association of Mutual Savings Banks, Washington, D. C. May 12, 1953.

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Concrete Investments

By IRA U. COBLEIGH
Author of "Winning in Wall Street"

A brisk account of cement, its concrete uses, and the financial structure of some of the companies that make it.


Ira U. Cobleigh

In a financial world slightly gaga over the single word "growth," and its emphasis on the research, manufacture, and wide sale of new products, it's nice to pause once in a while and to look at some of those less romantic, durable commodities that have served mankind for centuries, and give no sign of being less useful today. One such staple is cement.

Five thousand years ago Cheops (not a cut of meat, but an Egyptian king) built the Great Pyramid, one of the Seven Wonders of the Ancient World. It was held together by burnt limestone — cement. The Romans came along a couple of thousand years later, and not only used a natural cement (a sort of powdered limestone that hardened by adding water) as a binder for masonry, but were probably the first to employ concrete. Instead of making walls of solid stone as the Greeks and Egyptians had done before them, they got the idea of facing their walls with stone slabs and filling in the area in back, with assorted rocks, laced with lime and local natural cement (limestone roasted to ashes by volcanos). Thus, concrete was born, and thus began the great Roman building program including not only roads, walls, forts and aqueducts, but architectural gems such as the Pantheon, a concrete building with a vast dome, 140 feet across, held together by cement.

All these ancient cements, while proving their durability, had the defect of non-uniformity. In certain localities the natural product was excellent; elsewhere adhesive qualities of native limes varied widely.

During the Middle Ages, concrete seems to have been quite forgotten, not to emerge importantly again until the eighteenth century when a lad by the name of Smeaton got the idea that limestone with a heavy clay content, suitably burned, would turn to rock under water. In 1756 he applied this material to the base of the famous Eddystone Light, off Portsmouth, England, where it successfully buffeted storm and wave for a century and a quarter, until replaced. And finally after Smeaton, came one Joseph Aspin who, in 1824, patented in England, a process of mixing limestone and clay together under intense heat to form a compound that, with the addition of water, would turn into stone—stone as fine as the native Portland stone of which St. Paul's Cathedral, London, is built.

"Portland" Cement Takes Hold

It took a century or so for "portland" cement to really catch on, what with the competition of many native natural cements, both in Europe and Northeast U. S. The Erie Canal and the Brooklyn Bridge, for example, both used natural cement. But now we have "portland" for 98% of our concrete — uniform, standard and virtually ageless.

Fact is, concrete today is everywhere. The house you live in has concrete foundations, the water you drink came in concrete pipes from a reservoir in back of a concrete dam. You get in your car and drive to work on a concrete road, you slave over your office desk in a concrete monolith of a building, while your kids get hep to knowledge in a concrete fireproof schoolhouse. Your morning pineapple juice came through the Panama Canal, made with 8 million barrels of cement, and your air mail letter rolled over concrete runways on its way to you. And finally, in a deluxe burial, they insulate you against eternity with a concrete box!

Just so you may see how diversely we employ this everlasting, ubiquitous, petrous and magical powder in our country, here are the rough statistics: Of total annual production 5% goes to bridges; 7%, water supply and sewers; 15%, paving; 15%, dams for drainage, power or flood; 33%, building construction generally; 9%, farming; and 16%, miscellaneous. I hope this adds up to 100%!

Cement is a big industry, and the companies in it have, since the depression, fared rather well. Beginning with the public works program of the early 30's and running on through Grand Coulee, TVA, and the other dam (you'll pardon the expression) projects, up to our atomic plants, our toll highways and our million-a-year home construction of the present, we've been buying and using a whale of a lot of cement.

Let's take a look at some of the enterprises turning out the stuff. The biggest cement company in the world is **Universal Atlas**, but you can't buy stock in that directly. You get aboard the equity here by buying U. S. Steel, of which Universal Atlas Cement Co. is a 100% owned subsidiary.

General Portland Cement Co.

A good one to look at is General Portland Cement Co., one of the lowest-cost producers, formed as a merger, in 1947, of Florida Portland Cement, Trinity, and Signal companies, serving the South, and exporting south of the border from plants in Chattanooga, Tampa, Dallas, Fort Worth and Houston. Annual capacity, upon completion of the latest expansion to the Houston plant next year, will be above 13 million barrels.

The territory served is one of the most rapidly growing sections of the country and, as a consequence, net sales, below $15 million for 1947, are expected to exceed $30 million for 1953.

About finances, there is merely an issue of 1,039,971 shares of common, listed on NYSE, and currently quoted at around 52. Assuming the continuance of the $3 dividend, paid each year since 1949 (and now being earned over 1½ times) the yield is about 5.70%. Despite a large scale expansion program involving over $15 million since the merger, cash position has been well maintained and net working capital at the year-end was above $8 million.

Projection for this year appears favorable with heavy private construction and large scale public works under way in the territory. Also, the demise of EPT could expand the net of GPT. And a stock-split here would surely not seem incredible.

Penn Dixie

Our second cement entry today is Penn Dixie, with eight plants in the East and Southeast, capable of turning out altogether over 11 million barrels annually. Ten years ago Penn Dixie was regarded as a rather high-cost producer; but postwar, and especially in the last 3½ years, plant improvement, involving an outlay of more than $14 million, has stepped up efficiency. Aggressive selling is indicated by a 9% sales increase for the first quarter, 1953, which gain was translated into a 25% improvement in net earnings, over 1952.

Capitalization is 602,136 shares of common and long-debt (1952 year end) of $2,800,000. Since 1949 a $2 dividend has been paid each year, amply buttressed, in 1952, by per share net of $4.44. A number of analysts seem to feel that DXC (listed NYSE) is one of the underpriced cement stocks at its current level of 37. At all events, its price premium over book value ($32.18) does not seem excessive in this industry.

Alpha Portland Cement Co.

My third cement equity for today is Alpha Portland Cement Co., fourth largest unit in the industry, with a notable record for the perennial excellence of its balance sheets, and its steady dividend payment record, marred only by a 1933-4 lapse, back to 1916—35 out of 37 years.

Like Penn Dixie, Alpha has eight plants, but with a production potential running a million barrels higher—to 12 million annually. Plant locations are at Cementon, and Jamesville, N. Y.; St. Louis, Mo.; Martins Creek, Pa.; Manheim, W. Va.; Ironton, Ohio; LaSalle, Ill.; and Birmingham.

The common shares of Alpha, outstanding in the amount of 586,956 shares (listed NYSE) are the sole capitalization. Presently they sell at 49½ or roughly 10 times earnings with an indicated dividend of $3, yielding 6.1%. Alpha has proven to be one of the less volatile and more durable cement equities and, subject to the native cyclical characteristics long associated with this industry, Alpha shares may be regarded as rather of a quality equity.

Other Companies

Others you may want to examine are Lehigh, Lone Star, Dragon, Riverside and a more speculative entry, Giant Portland Cement.

Certain overall characteristics seem to stand out here: (1) a standard product almost like wheat or sugar, and thus much competition, since the superiority of one brand over another is most difficult to demonstrate; (2) a cyclical trade with the cycle element flattening out, postwar, due to a tremendous backlog of public works needs, and a vast superhighway and toll road program; (3) intermittent foreign competition on Atlantic Seaboard—with Belgian, Danish, and Polish cement entering, prewar, and some Belgian offerings right now; and (4) large overhead, meaning that a barrel produced when the mill runs at capacity is a far more profitable barrel than at 70% operation.

Price-wise, the trade was held down by OPS; but a 15c per barrel increase on April 1 this year permits a helpful offset to rising costs. On the basis of price-earnings ratios, ranging from 7 to 10, and yields of between 5½% and 6%, concrete investment values may be discerned in some of the cement shares we've mixed with today.

Cincinnati Municipal Group to Hold Outing

CINCINNATI, Ohio—Municipal Bond Dealers Group of Cincinnati, will hold their annual party June 26 at the Kenwood Country Club, Cincinnati, Ohio. Cocktail party will precede Thursday evening, June 25.

"At Some Point the Boom Will Become Tired"

By ALAN H. TEMPLE*
Executive Vice-President,
The National City Bank of New York

Leading New York banker, in calling attention to indications that some markets are being overcrowded with goods, asserts the current boom at some point may be nearing an end. Sees, however, an element of strength in moderation of industrial buying and in lessened speculative activity, so that any reaction from overcrowding of certain markets or from rise in instalment credit may be confined to a limited correction.


Alan H. Temple

The United States this spring is having the benefit of the greatest production of goods and services the country has ever known. Full employment is creating a stream of purchasing power which is flowing through the economy and maintaining a record volume of trade. Most manufacturers, notably the automobile companies and some other producers of consumers' goods, have taken an optimistic view of the markets and are operating at corresponding high levels. The general attitude of consumers is optimistic as shown by the state of trade and the willingness of people to borrow in order to buy the things they want.

Underlying and supporting the general activity are continued record-breaking business expenditures for plant and equipment and also peak government purchases of goods and services.

The principal question for the short run is whether the markets are being over-crowded with goods this spring and whether some of the business now being done is at the expense of the second half year. In some areas this is evidently the case. It is widely believed that automobile output, now based in part on seasonal stocking of dealers, can not hold present rates through the year, and in some consumers' hard goods lines curtailment is already reported.

Further indications of over-crowding are seen in the money market. The demand for capital has exceeded savings and the demand for bank loans has not shown as much seasonal decline as usual, largely because of an increase in loans directly and indirectly for consumer financing. With manufacturers in some industries stocking up dealers, and people borrowing more money to buy goods, some degree of temporary inflation of demand and production is probably occurring. From this a slackening is logically to be expected.

For 20 years the main trend of business has been upward. Recovery from the depression merged into and was succeeded by the inflation of the war and postwar periods. The upswing has been supported on the financial side by an inflation of the money supply and by an increase in debt, first in public debt during the war and more recently in private debt of all kinds. In physical terms, the great postwar rise has been based not only on expansion but on filling the gaps created during the war years—gaps in construction, in stocks of automobiles and other durable goods, and in industrial plants and machinery.

At some point the boom will become tired. The evidence will appear in both financial and physical statistics. Most inflationary booms come to an end when debt becomes burdensome relative to capital, relative to liquid assets and relative to the ability of the economy to supply money to keep the boom going. They come to an end when the cycle of construction and capital goods investment swings down. They come to an end when the distortions created by inflation in cost-price and income relationships force buyers out of the market.

The strength of the present situation is that the strains created by inflation do not yet seem to have become acute. Corporations, individuals, and lending institutions are no longer as liquid as they were at the end of the war, but by comparison with earlier periods the economy is still liquid. The worst that can be said about the working capital position of business and the ratio of liquid assets to debt of individuals is that they are low in relation to the highs. They are not low in relation to accepted prewar normals, and they do not as yet inspire any great worry so far as the aggregates are concerned.

Inventory positions are spotted and doubtless there are some points of weakness. Again dealing with aggregates, however, inventories in a good many lines, particularly defense goods, are but the other side of the coin when set against large unfilled orders. Merchants are keeping commitments and stocks well proportioned to sales. The tendency of industrial purchasing agents is to shorten rather than lengthen commitments. This conservatism of course is accentuated by the fact that basic commodity prices on the average have been in a sagging trend for more than two years.

The moderation of industrial buying policies and of speculative activity generally is an element of strength in the outlook for which there is reason to be thankful. It is a strong reason for believing that any reaction from the over-crowding of certain markets and from the rise in installment credit may be confined to a limited correction.

*Abstracted from an address by Mr. Temple before the 30th Annual Conference of the National Association of Mutual Savings Banks, Washington, D. C., May 11, 1953.

Tilney to Address Municipal Bondwomen

The Municipal Bondwomen's Club of New York announces that Frederick Tilney, Jr., of Tilney & Co., will be guest speaker for the sixth and final meeting of the 1952-53 series of the Club's educational program on May 21. Mr. Tilney's topic will be "New York State School Districts."

The meeting will be held at the 30 Broad Street office of the Chemical Bank & Trust Company.

M. J. Millard, Director

Mark J. Millard has been elected a director of Colorado Interstate Gas Co., it was announced by Robert W. Hendee, President. Mr. Millard is a partner in the New York Stock Exchange firm of Carl M. Loeb, Rhoades & Co.

The State of Trade and Industry

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

Total industrial production for the country-at-large see-sawed back and forth with the net result that overall output in the period ended on Wednesday of the previous week reflected no discernible change from that of the preceding week. It continued to hold close to the highest level since the end of World War II and about 3% less than the all-time peak in the latter part of 1943.

Some producers of consumer durables particularly appliances, reduced output slightly but such production remained well above the year ago level.

Steel ingot production held at 100.3% of capacity, down nearly two points from the all-time high reached six weeks ago. Freight carloadings rose to the highest level in five months, while electric power output dipped seasonably to a new low for the year.

National production of goods and services in the March quarter rose to a record annual rate of $363,000,000,000, White House economists estimated. This was $3,000,000,000 above the yearly pace in the final three months of 1952. For all last year, production amounted to $346,300,000,000. Personal consumption expenditures in the March quarter increased to $226,000,000,000 annually, from $222,000,000,000 in the preceding three months. But business outlays for plant and equipment declined to a yearly gait of $54,000,000,000, from $57,300,000,000 in the closing quarter of 1952.

In the steel industry this week sentiment is that the odds are against a steel strike this summer, but consumers aren't betting there won't be one, states "The Iron Age," national metalworking weekly the current week. They are stocking steel as if it were gold. Many of them actually seem to feel an inventory of the "precious" metal is better than money in the bank.

Fresh in steel users' minds is memory of last summer's longest and costliest strike in the history of the steel industry, with the loss estimated by "The Iron Age" at over $4,000,000,000. Many manufacturers had to close plants or cut production schedules because of the steel famine. The more fortunate ones saw their fat inventories melt to the bone.

This year the market setting is not too different from 1952; the wage question is coming to a head in a period of overwhelming steel demand. And business prospects are so bright that any inventory accumulated as a strike hedge can undoubtedly be worked off later in the year—in addition to bringing a nice return on the investment if steel prices are raised to cover a wage increase, adds this trade authority.

The biggest push behind overwhelming steel demand is coming from automotive buyers. Those who thought the Detroit juggernaut would lose power after midyear are amazed at the intensity and duration of the assembly line cry for metal, this trade weekly declares.

On the surface it looks as though there weren't a ghost of a chance there would be a strike. But the trouble is that neither labor nor management can afford to admit at the bargaining table their inability to make or take a strike—if that is the only way they can support their position, states this trade journal. Once the bargaining battle begins, the danger is that both sides might become so firmly entrenched they can't be budged into a compromise. Labor history of the industry makes this a telling point.

"Hands Off" policy of the present Administration may be just the extra opportunity they need to reach a quiet and peaceful agreement. The result may be a "modest" wage increase of about 10 cents an hour and a steel price increase in the neighborhood of $4 a ton, concludes "The Iron Age."

Reporting on the condition of business inventories at the close of March the United States Department of Commerce discloses that they were the highest in history, but were not "excessive" in relation to sales. Stocks held by manufacturers, wholesalers and retailers rose to $76,600,000,000, up $1,400,000,000 from a year earlier. After adjustment for seasonal factors, they were $200,000,000 above February levels. Officials noted, however, that the rate of gain in the March quarter slowed to $130,000,000 monthly, from a $500,000,000 average in the final four months of 1952.

Farmers, facing prospects of lower incomes, are cutting down their short-term borrowing, the United States Department of Agriculture stated. Surveys indicate this type of credit, which has increased two-and-a-half times since the end of World War II, is leveling off, it noted. Short-term farm debts rose only 4% last year compared with increases of 19% in 1950 and 21% in 1951. Farmers make short-term loans to finance their production operations, including the purchase of labor-saving machinery, it pointed out.

Sky-high construction for 1953: That's the outlook for a key industry that will do a record $33,000,000,000 worth of business this year, despite a decline in private industrial building, says "Steel," the weekly magazine of metalworking.

The figures, above, for the first four months of this year indicate that the cornerstone for peak activity in 1953 has been laid. Some 6% more work has been done already this year than for the same period in 1952. All last year some $32,000,000,000 worth of new construction was put in place, compared with $31,000,000,000 in 1951.

Optimism about construction often means optimism about business generally, adds "Steel," stating that many economists believe that building, plus steel production and auto assemblies, are the three basic indicators for all economic activity. All three are rolling well now.

Steel Output Scheduled This Week to Gain Fractionally

Don't count on rising steel prices to increase the availability of steel by reducing demand, says "Steel," the weekly magazine of metalworking, the current week.

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THE MARKET ... AND YOU

By WALLACE STREETE

The bulls got possession of the ball late in April and it took them just seven sessions to regain one-third of the losses sustained during the preceding four months. After such a recovery, the market can be excused for taking time out to indulge in a big yawn as it has been doing the past week. Favorable has been the drop in volume of trading on days when the list reacted.

* * *

During the coming week the Eisenhower Administration is expected to give Congress its recommendations on personal income and the excess profits taxes. The market's near term trend should be sensitive to these proposals. If they give hope for the elimination of the Excess Profits Tax the list should be in a position to regain one-half to two-thirds of the 1953 decline. If tax relief is not likely, a renewed test of the April lows is possible. Fortunately for the bulls, the market is approaching the seasonally strong period of the year from a well sold out condition which developed during April.

* * *

"From Missouri"

It was just a bit over seven years ago that Churchill delivered his famous Fulton, Missouri speech warning us against an aggressive communistic Russia. He also coined the phrase "Iron Curtain" at that time. Now he is hopeful that a big power conference will lead to peace for a generation. His timely warning, and the speed with which the free world rearmed has made the Russians miss their train. People in this country will still be "from Missouri," however, until the Communists prove by their actions that they want peace.

* * *

There are strange bed fellows in the sections of the market that have behaved better than average in recent weeks. The higher priced stocks are not far from the bull market high. Their current level has been surpassed in only three weeks during this bull market. Joining them in better than average behavior are the low priced stocks which showed good resistance during the January-April decline and which are higher than they were at the end of 1952. Low priced shares are selling 38% under their peak in 1946. Apparent-

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Observations . . .

By A. WILFRED MAY

Stockholder Discussion at Its Peak

Montgomery Ward this year provided a stockholders' meeting that was really "meaty"—in contrast to the boisterousness and superficialities at other gatherings, including its own in prior years.

A. Wilfred May

While part of the shareholder "beef" against Montgomery Ward has stemmed from Mr. Avery's watering down of the effectiveness of mandatory cumulative voting through the director stagger-election method—which strategy was discussed here last week—this meeting concerned itself with a detailed discussion of overall financial policy.

After the routine business opening the meeting, Chairman Avery introduced some of his fellow officers who read prepared statements. President Krider sounded the corporate keynote as "We are anxious to build more stores and to enlarge others but not during wartime in competition with the Government for personnel and material; not under the burden of taxation that threatens the very foundation of our economy; and not at prices nearly five times their value." [Cf ms] Chairman Avery then indicated that the floor was open for discussion of any other business while the ballots were being counted for the election of directors. At this point Mr. Thomas J. McCann of Philadelphia, a partner in the investment and brokerage firm of Gerstley, Sunstein & Co., rose to introduce himself and ask for the privilege of reading a letter which he had written almost three weeks previously and addressed to the Board. The original had been mailed to Mr. Avery and copies to each of the directors. Mr. McCann stated that since no acknowledgment of his letter had been received, he was asking for the privilege of presenting the contents of the letter then and there. On the assent of Mr. Avery, Mr. McCann proceeded to read the four-page letter from the middle of the floor, as follows:

The Board of Directors
Montgomery Ward & Company
619 West Chicago Avenue
Chicago, Illinois

Attention: Mr. Sewell Avery, Chairman of the Board

Gentlemen:

We are enclosing herewith just a few of the numerous proxies which you are soliciting from many of our clients who have long been stockholders of Montgomery Ward & Company. You will note that these proxies are being voted in favor of the management and for the new Directors as named in the proxy statement. However, we cannot let the occasion pass without expressing to you our thoughts with respect to Montgomery Ward & Company stock and specifically what we think should be done about it.

It is a matter of general knowledge that ever since 1946 the management of Montgomery Ward has been committed to a policy which has as its basic premise the expectation of a major business recession or depression. We have to concede, of course, that there is no reason for believing that the long familiar pattern of business cycles will change. It is equally apparent that stockholders should not be expected to wait indefinitely without some reconsideration of the basic policy of the management. Frankly, we and many of the stockholders think that seven years is a long time to wait for a business depression.

We think it can be easily demonstrated despite recent market declines that the stockholders of Montgomery Ward have not benefited from the policies of the management since 1946. Certainly the competitive position is not as good as demonstrated very clearly by comparison of sales and earnings with those of your major competitor. We think that it is equally clear that with almost any other type of policy the probabilities are that the stock of Montgomery Ward would be selling at a much higher figure than its present price. A comparison of market prices for large industrial companies of the caliber of Montgomery Ward between 1946 and the present time will prove conclu-

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Banking in the Transition Period

By MARCUS NADLER*
Professor of Finance, New York University

Dr. Nadler reviews impact of new credit policy on business and banking, particularly on the commercial banks, and concludes the policies now followed by the Federal Reserve are sound. Points out principles of the Treasury's new debt management policy. Holds there are indications that business boom is coming to an end and will be followed by a period marked by keen competition with possible inventory losses and smaller unit profits. Urges banks prepare for this situation and adopt their own credit restrictions.

A transition of major importance is in the making in the political field, international as well as domestic, in business developments, in credit policies and in debt management. This transition has already begun to have an effect on banking.

Marcus Nadler

Internationally the shift in the foreign policy of the Soviet Union, though it may be temporary, may lead to a truce in Korea and to an easing of international political tensions. The shift in Soviet policy may under certain circumstances usher in a prolonged period of relative tranquillity and make possible a reappraisal of our defense requirements. A stretch-out of defense expenditures over a longer period of years and a consequent material reduction in taxes could then eventuate.

Domestically a new economic policy is being evolved by the Administration. The principal features to date briefly have been the removal of government controls over wages and prices and the returning of initiative to private enterprise, thereby increasing its responsibilities and opportunities, but also its risks. A disengagement from business operations on the part of the government is taking place and many fields in which the government formerly operated are gradually being relinquished to private business. An important aspect of the change in domestic economic policy is the shift in the country's money and debt management policies.

A Shift to Credit Restraint

The credit policies of the Reserve authorities have shifted from neutrality to credit restraint. The Reserve authorities at present are not now concerned with maintaining the prices of government obligations or with the need to assist the Treasury in periods of refunding or raising new money. The aim now is to reestablish an independent free government bond market influenced solely by the factors of demand and supply.

Debt management is now guided by a similar objective. The Treasury is actively competing with private borrowers for investment funds and is offering rates high enough to attract investors for both its short- and long-term securities. Cost of borrowing is now not the sole consideration and the fact that a newly-issued security may be selling at a discount is not of major concern to the Treasury. In the free market which is being established the doctrine "Let the buyer beware" prevails.

These developments are bound to have far-reaching effects on the economy of the country in general and on the banks in particular. They, therefore, deserve careful scrutiny and understanding.

The Impact on Business

The improved international political situation, the credit restraint policy of the Reserve authorities and the new debt management policy of the Treasury are bound to have an impact on business activity. Business at present is at a peak with all indices practically at record levels. In spite of this, however, a number of weaknesses have appeared which even before the recent change in the international political outlook, indicated that the boom was approaching its end. Commodity prices, both those internationally-traded-in as well as farm prices, showed a considerable decline. The index of sensitive commodities reported by the Department of Labor stood on April 22, 1953 at 87.7 as compared with 97.4 a year ago, a decrease of 10%. The index of wholesale prices (1947-49 = 100) decreased from 116.5 at the peak (March, 1951) to 109.5 on April 14, 1953. Farm prices showed even a more drastic decline.

Private borrowing, notably consumer credit, had increased at a rapid rate and while the amount outstanding might not be considered excessive in relationship to the disposable income of the people yet it was quite evident that the rate of increase could not continue indefinitely. An improvement in the international political situation will hasten the end of the boom and may cause the readjustment to be somewhat more drastic. An improvement in the international political situation undoubtedly will have a psychological effect not only on business but, equally important, on buying by ultimate consumers. It is bound to lead to a policy of watchful waiting anticipating lower prices or better quality or both.

Credit restraint, if practiced long enough, invariably brings the desired result even though it may take some time. Money has become tight and the lending and investing ability of the commercial banks has been materially reduced. The Treasury is actively competing with private borrowers for the available short- and long-term funds seeking an outlet. Hence it is quite evident that some marginal borrowers will not be able to meet their requirements and this, too, is bound to have an impact on business activity.

One may, therefore, conclude that the business boom is coming to an end; that a readjustment is in the making. How far it will go and how long it will last will depend in part on the psychology of the people and in part on the measures taken by the Administration and the monetary authorities to combat it. What lies ahead is an economic readjustment and not a serious recession or depression. It should be noted, however, that a change in debt management and credit policies can have a favorable effect when business turns downward if the change in policies is made promptly. If, however, the change occurs when the business pattern already is set and the curve is downward the easing of credit as a rule has only a minor effect on business activity.

The Impact on the Banks

The change in the business pattern from a boom to a readjustment is bound to have an effect on the commercial banks. In the first place manufacturers and distributors will endeavor to reduce their inventories and this will lead to the repayment of debts. Some inventory may have to be liquidated at a loss, thus affecting the working capital position of some industrial and mercantile concerns. Although at the end of 1952 the net working capital of corporations in the United States as reported by the Securities and Exchange Commission amounted to $86,500 million as compared with $82,600 million at the end of 1951 and $78,400 million at the end of 1950, the ratio of cash and government securities to total current assets at the end of 1952 amounted to 28.4% as compared with 30% at the end of 1951 and 31.5% at the end of 1950, respectively. A decline in business, minor though it may be, may have a more pronounced effect on net profits. Many concerns may be forced to borrow from the banks in order to meet their tax liabilities on June 15, 1953. A decline in business activity will slow down the payment of notes and accounts receivable which at the end of 1952 amounted to $66,400 million, and will make business even more dependent on bank accommodation. These developments, unless carefully handled, may cause difficulties to the customers as well as to the banks. Of course, the best policy to adopt is to remove all weak spots now while business activity is still at a high level and before the decline sets in.

The business pattern during the forthcoming readjustment period, while it may be somewhat similar in character to that which prevailed in 1949 will, however, differ in many important respects. In 1949 there was still a great pent-up demand for all kinds of durable consumers' goods as well as for homes. This pent-up demand has to a large extent been met. Moreover, at that time private indebtedness was much smaller than at present and individuals could meet the pent-up demand for these goods by mortgaging their future income. When the currently anticipated readjustment sets in the only important pent-up demand still left will be in the field of public works, both Federal, state and local, and in some phases of construction. The pattern of the economy therefore will assume a more normal character such as existed prior to the war and the policies practiced by business and banking during the period of a sellers' market will have to be abandoned completely and those prevailing in a strong buyers' market will have to be adopted. There are not many leaders in industry and banking who hold today comparable positions during the period when a strong buyers' market prevailed.

The New Economic Policy

That the new Administration has adopted an economic policy different in many respects from the one in effect during the past 20 years is evident not alone from the removal of wage and price controls and the turning over of certain functions previously performed by the government to private enterprise but particularly from the new credit and debt management policies. The latter two are of the utmost importance to the banks.

The Credit Policy

The accord between the Federal Reserve authorities and the Treasury on March 3, 1951, returned to the Reserve authorities the initiative in the creation of reserve balances. This step was highly necessary and long overdue. It should have been adopted in 1948

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*An address delivered by Dr. Nadler before the New Jersey Bankers Association, Atlantic City, N. J., May 8, 1953.

Factors Affecting Interest Rates

By AUBREY G. LANSTON*
President, Aubrey G. Lanston & Co., Inc.

Listing credit policy, fiscal policy and debt management as key factors affecting interest rates, Mr. Lanston says these factors are as interdependent as a three-legged stool. Says tilt of stool is toward inflation, but this may be curbed through credit restraint and sound fiscal policy. Foresees likelihood of higher interest rates. Reveals problems of national debt reconstruction, and points out its basic aim should be better spacing of maturities. Predicts new U. S. 3¼% bonds will occupy preferred position in most investment portfolios.

Interest rates are affected by changes in business activity, in employment, in commodity prices, in the flow of savings and investments, and the like. These and other elements in the economy affect and in turn are affected by credit and fiscal policies and by debt management. In the final analysis, therefore, it may be said that these interdependent instruments—credit policy, fiscal policy, and debt management—are the key factors that affect interest rates.

Aubrey G. Lanston

This triumvirate seeks a single goal—the promotion of economic stability at a high level of business activity. Acting singly, neither credit nor fiscal policy nor debt management can insure economic stability. The relative capacity of each to contribute to this end varies with changing conditions and events. On occasions, we may properly expect much from credit policy and at other times we should expect little. Today the triumvirate is not in a position to pull together, because past fiscal policy requires that the Treasury finance a large cash deficit during a period of very good business, full employment, high national income, and a strong credit demand. The Treasury's contribution is compromised, not only by the cash deficit, but in other ways also. The debt managers must juggle a large amount of redeemable debt and a cumbersome total of nearby maturities.

These three instruments of national policy are interdependent. This, and the delicate problem of balance that is required by the cash deficit and the Treasury's debt structure may be illustrated by trying to visualize each of the three instruments as one leg of a three-legged stool. The top of the stool would represent the support for, shall we say, the body of our economy? Obviously, we want that body to be able to rest on a strong stool. We want solid stability. This means that each leg of the stool must be sturdy and properly braced into each other leg and into the top. If one leg were to give way, anybody sitting on the stool would be in danger of crashing to the floor. If one leg were too short or too long, the stool would be hard to sit on, and the tendency would be to slide off in the direction of its slope. To carry the illustration further: If one leg is partly splintered, it would be difficult to brace the other two against it. If, in addition, a second leg were weak, we can sit on the stool only by balancing our weight over the remaining good leg. This is no comfortable position, but it is precisely that in which we find ourselves today in the areas of credit and fiscal policy and debt management.

The good leg in the stool is credit policy. It is new wood and securely fitted into the top. It cannot, however, be adequately braced into the splintered leg of an inappropriate fiscal result. Neither can the leg of debt management. This leg has been renewed but the glue that holds it in place may not yet be dry because enough time has not elapsed. In any event, the tilt of this stool is toward inflation. A cash deficit during a period of good business such as we have today cannot tilt the stool in any other direction.

This doesn't mean that we are headed once more for inflation simply by virtue of a large cash deficit. There are other elements in the picture which produce counteracting stresses and strains. We might consider that these produce a certain unevenness to the floor on which the stool rests. For example, private debt has increased tremendously. Consumer credit has been on something of a rampage. These facts suggest to many that the economy is at the crest of a boom and that in the near future business may turn downward. Those who see things this way might be inclined to stress a prospective slackening in the production of automobiles and steel. And, they may be wholly correct. We don't know. But we do know that the decline is **prospective** and that business **currently** is very good indeed. Moreover, a new factor generally considered bullish has just entered the picture, namely, the increase that has just been permitted in the interest rates charged on VA and FHA mortgages. This is expected to enlarge the pool of funds available to builders and home buyers. It may stimulate residential construction. In addition, we don't know in what ways the pervasive effects of the Treasury's cash deficit may be felt, or how and where these will turn up in the economy. We do know that it would be unique indeed for us to find that, in the present high levels of business activity, we could afford to relax the present degree of restriction in credit policy at a time when the Treasury is incurring, and just beginning to finance, a large cash deficit. Certainly, we won't strengthen the stool that I have been talking about by weakening the only good leg of the three.

Yet, last week, we find a usually well-informed and generally outstanding periodical—"Business Week"—issuing a strongly worded editorial to the point that the Federal Reserve should relax its present mildly restrictive credit policy. It refers, in the closing part of its argument, to the ignominy suffered by the Treasury in having its new 3¼ go to a discount before issuance. Then it says, "We are glad to know the brakes work, but we don't want to go through the windshield." Hasn't "Business Week" heard about the Treasury's large deficit? In a high employment economy that's the accelerator!

Now, **there is another requirement if credit and fiscal policy and debt management are to work.** Each of these three national in-

*An address by Mr. Lanston at the 33rd Annual Conference of the National Association of Mutual Savings Banks, Washington, D. C., May 11, 1953.

struments also must establish and follow certain recognized rules of the game if a properly-conceived policy **in any one** of the three fields is to achieve maximum success. These rules of the game must take into consideration human nature and human reactions. Further, the general public that has to take part in the game must have a fairly good idea of what the rules are. From such knowledge they then will know better what to expect as conditions change or a perspective change looms on the horizon. Then they could cooperate more intelligently. Public cooperation in these matters is a prerequisite to their working out properly.

In credit policy the basic rules have been adequately available for a long time and competent authorities agree on what they should be. During the years when a felixible credit policy was suspended by the subordination of the Federal Reserve's duties to the requirements of Treasury financing and the support of Treasury security prices, these rules were of small importance in judging interest rate trends. During the past two years as credit policy has become more flexible, their importance has grown, but it has been difficult to predict with confidence how the old rules might be modified to fit postwar conditions, or to foresee the fullness with which the transition to free markets for interest rates might be developed and completed in such a short space of time.

I must say something about **these free markets for interest rates.** In a talk delivered in Detroit four weeks ago, the Chairman of the Board of Governors of the Federal Reserve System spoke frankly. Since he did not qualify his statements, it may be assumed that he stated the position of the Federal Reserve System and he did so with admirable clarity. He said, in effect, that free markets for interest rates are indispensable and here to stay. He defined free markets as ones that permit the natural forces of supply and demand to be reflected into market prices and yields. He pointed out that in this complex world limitations exist for such freedoms and that the required minimum, in this instance, is provided by monetary policy. He said that direct intervention through the purchase and sale of Treasury bonds was to be limited to the rare occasions when market conditions were clearly disorderly and by that, I am sure he did not mean a point or two decline or rise on a thin volume of transactions. Otherwise, the position of the Federal Reserve System, as Mr. Martin gave it, is that the regulation of the free markets for interest rates is to be confined to that which flows indirectly from increases and decreases in the availability of Federal Reserve Bank credit under changing business conditions and changing credit policies. Mr. Martin's concluding remarks were that if we handled fiscal, monetary, and debt management problems wisely we would not have to worry much about the dollar. To which I might add: nor would **so many** worry **so much** about the prices of Government securities.

An important aspect of the trend of interest rates at this time concerns the manner in which credit policy will be handled during this period of an unwise fiscal result when debt management cannot contribute its full share to the promotion of economic stability. We cannot afford to forget for one moment that as the Treasury is forced to finance a large deficit, a comparable increase will take place in the total demand for credit. This increased demand, represented by

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LETTER TO THE EDITOR:

Takes Issue with Franz Pick on Repercussions of Gold Standard

Dr. Harold J. King holds there is no ground for stating we are committed to "dishonest money management" and that wars necessarily lead to inflation. Questions his figures on "earmarked" gold.

Editor, Commercial and Financial Chronicle:

To this writer, one of the most interesting and provocative presentations on gold to appear recently in the "Chronicle" is Franz Pick's "Why We Can Not Return to the Gold Coin Standard" (May 7 issue). Professing a full belief in "the virtues and qualities of the Gold Coin Standard," Mr. Pick tells us "We have to abandon the dream for good," because of "the general acceptance of dishonest currency management."

Harold J. King

This overlooks the fact that peoples accept, and reject, ideas from time to time. For a long time, the New Deal concept was "generally accepted" in the United States. And, of course, such may come to pass again, depending upon the results produced by the current and future Administrations. But to argue that the people of the United States, in 1953, generally accept dishonest currency management is stretching a point.

Mr. Pick leaves the impression that modern war cannot "be financed without the destruction of currency values." We were assured that Hitler could not launch World War II, because Germany lacked sufficient gold. It is true that he brought forth his most formidable attempt to conquer the world by (among other things) destroying the value of the mark. But who is to say that he, or his opponents, might not have made better showings in the bloody game of war, through the use of a system of taxation devoid of currency deterioration? The nations which choose to finance their efforts in World War III through currency deterioration—with all the negative effects it can have on a war effort—may find themselves relying upon something as outmoded as the Maginot concept of defense.

As Mr. Pick points out, governments on both sides of World War II created "lies of the unmatched quality of investment in government bonds." But he calls these lies "permanent," whereas, in actuality, their potency has virtually disappeared. Whether this particular form of falsehood will be resurrected for use in World War III will depend upon the character of the contestants' leaders.

Mr. Pick continues that for us to return to the gold standard "would mean a depression of unbearable proportions.

"It would be worse than 1929, because we would have to face two principal facts—morals and the mechanical aspects of a Gold Coin Convertibility."

His moral-psychic argument centers around the size of our new double eagle. As it would have to look "half the size of its predecessor . . . a more or less hidden confiscation would become visible to everyone and the moral impact of such an admission would do much to destroy the already waning confidence in our monetary system.

"Over-night, one of the basic principles of monetary theory—namely, that a currency is made to be devalued—would become public knowledge."

A goodly portion of the present population of the United States, of course, have never seen a double eagle. And it is inconceivable that the remainder will have to wait until they see a new one to discover that their currency has been sadly depreciated.

Mr. Pick seems unduly concerned about "the purely technical aspects of a return to the gold coin standard." As to convertibility, he asks, "Have you ever thought that of the $22½ billion of gold we have, about $3 to $5 billion are mortgaged by dollar holdings of foreign governments. . . . Therefore, only $16½ to $19½ billion are actually our gold stock."

But the Federal Reserve "Bulletin" assures us that "Gold under earmark is not included in the gold stock of the United States." The April, 1953 issue places the gold stock of the United States at $22.6 billion, and earmarked gold at $5.9 billion at the end of March.

It is observed by Mr. Pick that a return to the gold standard might check government extravagance. But he follows with the dictum "Government economies, I am sorry to state, generate decline of business activity and unemployment." This last could, at best, be labeled an opinion, and hardly one consistent with a full belief in "the virtues and qualities of the Gold Coin Standard."

(Signed) HAROLD J. KING.

New York City,
May 12, 1953.

Two With McDonald Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio — Carl J. Fielden and Jack R. Sanders have become associated with McDonald & Company, Union Commerce Building, members of the New York and Midwest Stock Exchanges. Mr. Fielden was previously with Fulton, Reid & Co.

Dealer-Broker Investment Recommendations & Literature

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

Beneficiaries From Excess Profits Tax End—Bulletin—Walston & Co., 35 Wall Street, New York 5, N. Y.

Bond Market — Bulletin — Thomson & McKinnon, 11 Wall Street, New York 5, N. Y.

Chemicals: The Fastest Growing Major Industry—Brochure—E. W. Axe & Co., 730 Fifth Avenue, New York 19, N. Y.—paper $1.00 (50¢ to Public Libraries and non-profits institutions).

The Corporate Balance Sheet—As a method of securities appraisal—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

The Exchange—Monthly magazine with special articles on stocks listed on the New York Stock Exchange—$1.00 per year—Dept. C, The Exchange Magazine, 20 Broad Street, New York 5, N. Y.

Fire & Casualty Insurance Stocks—1952 earnings comparison—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Investments by Foreigners in Japanese Stocks—Bulletin—The Nikko Securities Co., Ltd., 4, 1-chome, Marunouchi, Chiyoda-ku, Tokyo, Japan. Also available is stock bulletin of prices on the Tokyo Securities Exchange, which also contains brief data on **Mitsubishi Electric Manufacturing, Isuzu Motor, and Mitsubishi Oil.**

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 Securities Market—32 page booklet describing all phases of activities of the over-the-counter market—New York Security Dealers Association, 42 Broadway, New York 4, N. Y.

Pipe Lines—Discussion in April Bulletin—Ross, Knowles & Co., 330 Bay Street, Toronto, Ont., Canada.

Textile Weaving Industry—Memorandum—Estabrook & Co., 15 State Street, Boston 9, Mass.

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ABC Vending Corporation—Bulletin—Bregman, Cummings & Co., 100 Broadway, New York 5, N. Y.

Alabama Gas Corp.—Memorandum—Hirsch & Co., 25 Broad Street, New York 4, N. Y.

American Hawaiian Steamship—Review—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Central Maine Power Co. — Analysis — Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Central Telephone Company—Analysis—Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

Cluett, Peabody & Co. Inc.—Analysis—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Dun & Bradstreet, Inc.—Report—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

Duquesne Light Co.—Memorandum—Smith, Barney & Co., 14 Wall Street, New York 5, N. Y.

Ford Motor Company of Canada Ltd.—Circular—Hardy & Co., 30 Broad Street, New York 4, N. Y.

Hoffman Radio Corp.—Memorandum—Fewel & Co., 453 South Spring Street, Los Angeles 13, Calif. Also available is a memorandum on **Plomb Tool Co.**

Libby, McNeil & Libby — Bulletin — Stanley Heller & Co., 30 Pine Street, New York 5, N. Y.

Lunn Laminates—Memorandum—Goodbody & Co., 115 Broadway, New York 6, N. Y.

Missouri Pacific—Discussion of reorganization plan—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Mount Vernon-Woodberry Mills, Inc.—Bulletin—Gartley & Associates, Inc., 68 William Street, New York 5, N. Y. Also available is a bulletin on **Pfeiffer Brewing Company.**

New York, Chicago & St. Louis—Bulletin—Dreyfus & Co., 50 Broadway, New York 4, N. Y.

Ohio Water Service Co.—Memorandum—Cohu & Co., 1 Wall Street, New York 5, N. Y.

Pepsi Cola—Bulletin—Cohu & Co., 1 Wall Street, New York 5, N. Y.

Southwestern Public Service Company—Analysis—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y. Also available is an analysis of **Pacific Power & Light Co.**

Temco Aircraft Corp.—Bulletin—De Witt Conklin Organization, 100 Broadway, New York 5, N. Y.

Traders Finance Corp. "A" and Industrial Acceptance Corp.—Analysis—Carl Loeb, Rhoades & Co., 42 Wall Street, New York 5, N. Y.

Transcontinental Oil Corporation—Bulletin—O. B. Motter & Associates, 500 Fifth Avenue, New York 36, N. Y.

Tri Tor Oils Ltd.—Bulletin—Philips & Co., 40 Exchange Place, New York 5, N. Y.

Utana Basins Oil—Information—W. D. Nebeker & Co., Pacific National Life Building, Salt Lake City 10, Utah. Also available is information on **Ute Royalty** and **English Oil.**

NSTA Notes

A DAY WITH SEC & NATIONAL SECURITY TRADERS ASS'N

A round-table discussion was held in Washington, D. C. on Wednesday, May 6 by the SEC Commissioners and staff, the officers of the National Security Traders Association and the Presidents of their local affiliates. Many problems of the industry, involving new issues, mutual funds, securities distribution and the mechanics of trading were discussed and the commissioners and staff members present explained the reasons for their rules and administrative approach.

The National Security Traders Association consists of 31 affiliates, or 4,000 individual members from all sections of the country and is the largest group of organized individuals engaged principally in the Trading Division of the investment industry.

The general feeling of the group after the eight-hour session was best voiced in the statement made by Harry L. Arnold, Goldman, Sachs & Co., President of the N.S.T.A.: "We feel that a very constructive day was spent with the Commissioners and Staff of the SEC and the results only bear out the necessity of the continuation of these Forums."

SECURITIES TRADERS ASSOCIATION OF DETROIT, MICH.

The Securities Traders Association of Detroit and Michigan, Inc. is in the process of making plans for their summer outing, which will be held on Tuesday, June 16 at the Plum Hollow Golf Club.

Guest Fee—$12.50, golf, dinner and special events will be featured.

Registrations should be made now by mailing a check to: Securities Traders Association of Detroit and Michigan, c/o Frederick J. Bolton, H. V. Sattley & Co., Inc., 915 Hammond Building, Detroit 26, Michigan. Victor A. Williams, Paine, Webber, Jackson & Curtis is Chairman.

SECURITY TRADERS ASSOCIATION OF NEW YORK

Security Traders Association of New York (STANY) Bowling League standing as of May 7, 1953 is as follows:

Team—	Points
Meyer (Capt.), Kaiser, Swenson, Frankel, Wechsler, Barker	45½
Hunter (Capt.), Klein, Weissman, Murphy, Searight	44
Bean (Capt.), Frankel, Strauss, Nieman, Bass, Krassowich	43½
Burian (Capt.), G. Montanye, Voccoli, Siegel, Reid	41
Growney (Capt.), Craig, Fredericks, Bies, McGovern	40
Krisam (Capt.), Ghegan, Jacobs, Gannon, Cohen	39
Donadio (Capt.), Demaye, Whiting, O'Connor, Rappa, Siejas	37
Goodman (Capt.), Smith, Valentine, Meyers, Farrell, Brown	36
Serlen (Capt.), Gersten, Krumholz, Rogers, Gold	34½
Murphy (Capt.), Manson, D. Montanye, O'Mara, Pollack, Gavin	31
Mewing (Capt.), Bradley, Weseman, Hunt, Gronick, Guff	28½
Leone (Capt.), Greenberg, Tisch, Werkmeister, Leinhard, Corby	30

200 Point Club

Hank Gersten 208
Roy Klein 205
W. Krisam 201

5 Point Club

Willie Krisam

COMING EVENTS

In Investment Field

May 13-16, 1953 (White Sulphur Springs, W. Va.)
Investment Bankers Association of America Spring meeting at the Greenbrier Hotel.

May 15, 1953 (Baltimore, Md.)
Baltimore Security Traders Association 18th Annual Spring Outing at the Country Club of Maryland.

May 15, 1953 (Pittsburgh, Pa.)
Bond Club of Pittsburgh annual spring outing.

May 17-19, 1953 (Coronado, Calif.)
California Bankers Association 62nd Anniversary Convention at the Hotel del Coronado.

May 26, 1953 (New York City)
Cashiers Division of Association of Stock Exchange Firms fifth annual Walter L. Wright Memorial Golf Tournament at the Leewood Golf Club.

May 29, 1953 (Los Angeles, Calif.)
Bond Club of Los Angeles annual field day at the Wilshire Country Club.

June 1, 1953 (Chicago, Ill.)
Midwest Stock Exchange Annual Election.

June 2, 1953 (Detroit, Mich.)
Bond Club of Detroit annual summer golf party at the Meadowbrook Country Club.

June 3-4, 1953 (Minneapolis-St. Paul, Minn.)
Twin City Bond Club annual picnic at the White Bear Yacht Club.

June 4-5, 1953 (Boston, Mass.)
Boston Security Analysts Society annual meeting and New England Regional meeting at the Harvard Club, June 4, followed by field trips in the Providence area June 5.

June 5, 1953 (Chicago, Ill.)
Bond Club of Chicago 40th annual field day at the Knollwood Club, Lake Forest.

June 5, 1953 (New York City)
Bond Club of New York Annual Field Day at Sleepy Hollow Country Club.

June 5-7, 1953 (San Fran., Calif.)
San Francisco Security Traders Association Spring Party.

June 9-12, 1953 (Bigwin, Ontario, Canada)
Investment Dealers' Association of Canada Annual Convention, Bigwin Inn, Lake of Bays District.

June 12, 1953 (New York City)
Municipal Bond Club of New York Annual Field Day at the Westchester Country Club and Beach Club, Rye, N. Y.

June 12, 1953 (Philadelphia, Pa.)
Investment Traders Association of Philadelphia annual summer outing at the Whitemarsh Valley Country Club.

June 16, 1953 (Detroit, Mich.)
Securities Trades Association of Detroit & Michigan summer outing at the Plum Hollow Country Club.

June 18, 1953 (New York City)
New York Security Dealers Association Annual Outing at the Pelham Country Club.

June 19, 1953 (New Jersey)
Bond Club of New Jersey annual field day at Rock Spring Club.

June 19-21, 1953 (Los Ang., Calif.)
Security Traders Association of Los Angeles annual spring party at the Arrowhead Lodge, Lake Arrowhead, Calif.

June 25-26, 1953 (Cincinnati, Ohio)
Municipal Bond Dealers Group of Cincinnati annual party at the Kenwood Country Club June 26; cocktail party, Thursday evening June 25.

June 27, 1953 (Chicago, Ill.)
Chicago Bond Traders Club Annual Spring Outing at the Nordic Country Club.

June 28-30, 1953 (Santa Barbara, Calif.)
California Group of Investment Bankers Association second annual conference at the Santa Barbara Biltmore.

Aug. 20-21, 1953 (Denver, Colo.)
IBA Rocky Mountain Group-Bond Club of Denver annual summer frolic at Albany Hotel (Aug. 20) and Park Hill Country Club (Aug. 21).

Sept. 16-19, 1953 (Sun Valley, Ida.)
National Security Traders Association 20th Annual Convention.

Oct. 14-16 (Louisville, Ky.)
Association of Stock Exchange Firms Board of Governors Meeting.

Nov. 29-Dec. 4, 1953 (Hollywood, Fla.)
Investment Bankers' Association of America Annual Convention at the Hollywood Beach Hotel.

With Link, Gorman

(Special to THE FINANCIAL CHRONICLE)

GREEN BAY, Wis.—Harvey M. Maresch has become affiliated with Link, Gorman, Peck & Co., Northern Building.

The Course of the Market

By JACQUES COE
Senior Partner, Jacques & Co., New York
Members New York Stock Exchange

Market economist states present conditions accentuate importance of being in "right" groups and stocks. Maintains in immediate future market will make slow progress, in line with Eisenhower's handling of inherited mess; and no panics and depressions are in prospect in foreseeable future.

When appraising or judging the stock market there are many things to bear in mind (probably *the* understatement of the year). One of the most important — and probably the least understood — is the fact that all groups and industries do not move up and down at the same time.

Jacques Coe

If an *omnipercipient* soothsayer (slang for wise guy) had looked into the crystal ball in the summer months of 1949 and guaranteed that the averages would rise 80% in three years—he still could have gotten into plenty of trouble. Because—if the bank roll had been invested at that time in certain groups such as gold, motion pictures, textiles, carpets and tobacco companies (and probably quite a few more) — that same bank roll by the end of 1952 would have shrunk by nearly 40%, while the *over-all* average advanced about 80%. (Small comfort in that.)

Ergo—the ever-present struggle is to be in the right groups—and again in the right stocks of these groups.

Now that the stock market as measured by various averages has declined approximately 10% in *price* and about 17 weeks in *time*, the incurable optimists of last year are beginning to wonder whether the widely predicted rise into the stratosphere may not have "come a cropper."

Short Memories

Security-wise the trouble with most people's thinking (using the psychological mass approach) is that Mr. Average Investor and Speculator forever thinks of future happenings in terms of what has gone before *in the light of recent memory*. Hence any business setback immediately is characterized as a "depression" and dramatically associated with apple vendors, unemployment lines, and coffee handouts. By the same token all stock market declines are considered potential panics—reminiscent of 1929. The spectre of fortunes wiped out overnight returns like Hamlet's ghost.

No Panic Ahead

We agree that in many instances financial history repeats itself in some form but never quite the same way, and seldom within the memory of one generation. Panics and business depressions have occurred before—*and will take place again*—but not in the immediate years ahead.

Recently there have been certain weak spots in our economy which have vulnerable potentials, and whether the lighting strikes or not largely depends on the extent of certain chain reactions. We have confidence in the new business managers in Washington. They are in the process of reflating by gradual steps so that the bubbles do not burst through neglect.

Our vast instalment debt is tremendous and record-breaking. It absorbs enormous quantities of money for commercial financing. It is one of many overpowering money demands contributing to the recent phenomena of tighter money rates.

Heretofore high volume of factory production has been possible because of mass absorption by hordes of instalment buyers. Fortunately all along the line the brakes gradually are being applied. If the chain reaction is mild and orderly, the extent of lower production may not be unduly harmful, and the results, while mildly deflationary, will be a long way from general disorder.

A tender spot—technical rather than fundamental, and probably of temporary character — is the substantial amounts of borrowed money on high grade securities, mostly bonds, entered into while money rates were low—where the original margins prove to be inadequate (because of recent declines in these securities owing to higher interest yields) while the carrying cost is going up. Forced liquidation in these situations causes temporary weakness but the end result is constructive.

Over-Distribution of Securities

Still another point of technical weakness is the enormous amount of security distribution these last two years in every conceivable form—many new issues— additional rights to subscribe for increased capitalizations—secondary offerings — mutual and open-end investment funds—and vast public buying of odd lots — all of which we have noted in our previous articles from time to time as reaching tremendous proportions.

Security loans, true enough, had not advanced for quite a while—oscillating around the $1,250,000,000 level—but since the recent reduction in margins to 50% the first three months of 1953 do show a tendency to increase (latest figure close to $1,500,000,000).

A truce, or peace in Korea, if and when it comes is bound to make a decided change in the substance of our over-all economy. The bull market of the last two years largely was sparked by a war economy philosophy—and helped along by a liberal "give away" program.

Fortunately, our new administrators in Washington are brought up in an entirely different school of economics from that of the New, Fair and Rough Dealers.

For the first time in 20 years two and two make four—instead of either five or twenty-two. The erstwhile popular game of mortgaging our future generations has been stopped. The illusion of easy money (indirectly through the printing press) finally lost its sponsor and its glamour. The new Treasury Secretary has done away with the fallacious razzle dazzle.

Certainly we cannot expect to continue exporting goods and merchandise abroad without buying in return. Foreign competition is bound to hurt some of our domestic business. Only our vast "give away" program under Point IV delayed the day of reckoning.

Fortunately for the welfare of our country—we forked away last November from the road to ruin. Now we are on the road to sound business prosperity, but as the French say—"You can't make an omelet without breaking some eggs."

Slow Market Progress

What has been going on in the stock market is something everyone should have anticipated immediately after the elections last November. We have no illusions —and have had none. When a man takes over a mess (having a four-year contract with an implied promise of renewal if he makes good)—is it not good practice and sound business sense to spend the first year in cleaning house—eliminating waste and reorganizing all around—so as to be able to send the nation forward on its natural upward course for the succeeding three years?

On the whole one should expect the cost of living to come down modestly. The future dollar should buy more rather than less. And curiously enough the same groups which we demonstrated should *not* have been bought in the summer of 1949 very well could turn out to be among those favored industries which prosper during the immediate period of business readjustment.

Joins E. F. Hutton Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif. — Ralph C. Haun is with E. F. Hutton & Company, 623 South Spring Street.

Claude Porter Rejoins Baker, Simonds & Co.

Claude G. Porter

(Special to THE FINANCIAL CHRONICLE)

DETROIT, Mich. — Claude G. Porter has rejoined Baker, Simonds & Co., Buhl Building, members of the Detroit Stock Exchange. Mr. Porter has recently been a partner in White, Noble & Co. with headquarters in Detroit.

Permanent Preparedness— A New Economic Factor

By DR. ERWIN GRAUE*
Professor of Economics, University of Idaho

Prof. Graue discusses economic impact of spending for mobilization and points out current program of permanent armed preparedness is a new factor in our national economy. Foresees probability of gradual steadiness at high level of defense spending, accompanied by heavier outlays for durable goods. Stresses need of balanced Federal budget to maintain economic stability and growth, and concludes future real income available for civilian consumption will be swallowed up by the cost of increased preparedness.

The advent of Korea has brought on a new plan of preparedness that is of a different character in its relationship to the economic organization than has been experienced heretofore. Up to 1950 preparedness had been based upon a program of current industrial resources and the cooperative resourcefulness of industrial and military leaders to readapt and expand the plant to an actual war emergency. The new plan that evolved with Korea has for its objective the construction of a separate mobilization base that will enable the military to expand output of war material to high levels without substantial conversion, i.e., on the run, so to say. The mobilization base will be a privately owned and operated stand-by plant, fully equipped with machine tools and a stockpile of critical materials. The construction of this plant involves the spending of successive doses of billions of capital investments until some time in 1953 when the base is expected to be completed. Thereafter, further defense and military aid expenditures are expected to level off. The thesis here is—can this leveling out process of mobilization expenditures be expected as originally planned? Admittedly not. Because up to now there have been several modifications on when the leveling-out is to be expected. Again, and perhaps, will there be a leveling-out process at all? And, if so, what kind?

Erwin Graue

The program of preparedness involves three phases of different economic impact: (1) the increase in expenditure between midyear of 1950 and 1953 that will go into excess capacity which is to be held in reserve against the contingency of all-out mobilization; (2) the impact of the reduction in expenditure upon the completion of the mobilization base; and (3) the over-all long-term expenditure for military services that must be expected to be carried over an indefinite period after 1953. The impact of phase one is already on record; the effect of phase two is in the making; and phase three bids for attention because it will establish a new military peacetime policy that may be of considerable significance for the economic organization. What about phases two and three?

The Record of Federal Expenditures

In examining the record of Federal budget expenditures from 1950 to the estimates for 1953, there is only one item that shows a decrease of 9%, which is the appropriation for civil affairs. All other items show a persistent increase. The largest increase is for military services which is expected to rise from \$12.3 to \$51.2 billion, or more than four-fold by 1953. This is the item in which the construction of the mobilization base has a major share and which is said to have had a strong influence on the present tide of industrial activity. The plan calls for a basic expansion of 20% in steel, 115% in aluminum, 25% in copper ore, 60% in electric power, 20% in petroleum, a quadruple increase in machine tool output, and an increase of many other items.

In spite of what may be said about the overall effect of increased Federal expenditures on economic activity, the major emphasis should be placed on the particular effects in localities where plant construction for defense output is under way, and to a lesser extent on the effects in localities where the diffusion of spending runs through indirect defense-related industries. It is quite apparent that each firm faces an individual problem in what to do and how to manage when it enters upon a defense-related project. Some plants will do no more than take up the slack in capacity to fill these orders; more of them will expedite output by adding new equipment; most of them will add new plant units and engage in substantial innovation for much greater future output. It should be recognized at this point, that besides the primary consideration there is an important corollary: the expansion program is for mobilization and for the civilian economy.

Now, what of the cut-back in spending when the construction of the stand-by plant nears completion? There are two problems here, one of the individual firm, and the other of the geographic area that has benefited from the accelerated activity of defense spending. Whether or not the firm can keep its new capacity going and maintain employment will depend on the state of general economic activity and on particular costs and on individual demand. This phase of the mobilization program has invited widespread attention and has led to all sorts of economic predictions. It is the problem of "the gap," i.e., the decline in spending for the mobilization base.

Let us look at this problem a little more in detail. There are two reservations in order insofar as the completion of the defense project is concerned. The first reservation has to do with a lag in actual spending over against the authorization of funds; the second one deals with the proportion in the reduction of spending to total personal income.

Unexpended Defense Appropriations

To go back a little way, in January of 1952 it was reported that the projects of the defense program were over 40% completed and that two-thirds of these would be finished in 1952. Whether or not a schedule is maintained will depend on the lag of authorizations and commitments made in previous years to the new obligational authority for a specific year. For instance, in June of 1951, unexpended balances were available that comprised the unexpended portion of appropriations for 1950, plus new grants of obligational authority for 1951. The unexpended balance alone at the end of the fiscal year of 1950 amounted to \$15 billion; for 1951 it was \$50 billion; for 1952 it is more than \$70 billion; and for 1953 it is expected to be \$70 billion. In the course of 1953, and that means some time after June or during the fiscal year of 1953-1954, the trend will, supposedly, reverse itself. The new authorizations will decline slightly below the expenditures. At the end of 1953 there will still remain an unspent margin of \$70 billion which is thence expected to shrink throughout 1954. The chances are that the stand-by plant will not be completed in 1953 and that the stretchout will reach well into 1954 and, probably, into 1955.

On the above premise it is very probable that the many billion dollar gap will not assume the proportions of a sudden economic nightmare, nor take on the shape of a lengthening shadow when the rate of spending tapers off—provided, of course, that no substantial contraction occurs in other sectors of the economy.

The second reservation deals with the relationship of the reduction in spending to the income stream in general.

At the current annual rate of total personal income a reduction in spending by \$20 billion per year is about 7.5%; and in terms of current disposable income, it is 8.6%. This is a relatively small proportion and could be taken up by increasing demands for personal consumption and in gross private domestic investments. Necessarily, such relevant demand will have to coincide with the reduction in spending for the stand-by plant and, therefore, is a matter of the rate of economic activity in general and the availability of liquid resources. For instance, it is noteworthy that total personal income has advanced much more rapidly in recent years than personal consumption expenditures. The increase in total personal income from 1950 to 1952 was over 18%; for the same period the increase in personal consumption expenditures was only 12%. In other words, the rate of personal savings is greater now than it was before 1950. Again, the annual rate of gross private domestic investments reached \$65 billion during the second quarter of 1951. Currently that rate is about \$57 billion. Personal consumption expenditures for durables reached a high at about the same time as gross private investments, while nondurables and services have moved ahead nearly persistently since 1950. It is possible, therefore, and, provided that the banking community has an unspent margin at that time, that the slack in spending caused by "the gap" might be taken up in part by an increasing rate of expenditures for durables and services in addition to a recovery in gross private domestic investment, at least to some extent. These elements will lend more stability to economic flow than the expenditures of the Federal Government. Necessarily, every stream of expenditure has an incremental bearing and all of them are relative to each other in their integrating influence—in their respective magnitude, sensitivity, and in the element of time. It is, for instance, significant that the ratio of total unfilled to new orders in the durable goods industries is currently at 6.7 compared with 3.3 in 1950. This is an important item in total personal income which, again, is directly related to personal consumption expenditure.

On this premise of the above reservations, the chances are that

Continued on page 56

*An address by Prof. Graue before the Junior Officers Convention of the Idaho Bankers Ass'n, Boise, Ida., April 13, 1953.

Revision of Rail Rate Structure Urged

W. A. Mather, President of Canadian Pacific Railway, says if railroads are to obtain new capital on a fair return basis, they must be given reasonable managerial freedom in the pricing of their services.

In his address to shareholders at the annual meeting of the Canadian Pacific Railway, held in Montreal on May 6, W. A. Mather, President of the Company, called for changed principles of fixing railroad rates and a different freight rate structure, if the railways of Canada are expected to attract the vast sums of new capital needed to maintain railway progress in line with the general economic expansion.

William A. Mathe

Speaking on this subject, Mr. Mather stated:

"The present freight rate structure has evolved from one originally designed to serve a very different economy from that of today. The historic pattern, established at a time when railways were the only effective means of overland transportation, was intended to encourage the opening up of new land areas and to develop the commerce of a young nation. It is therefore understandable that a dominant consideration should have been to insure that the products of the farm, the forest and the mine would be moved to the marketplace at minimum rates. It is not surprising, in view of the fact that competition was a relatively insignificant factor in those days, that supervision and control of railway freight rates by public authority should then have been so important an element in the transportation policy of the nation.

"The practical application of this early policy found expression in what is known as the value of service principle. Relatively low rates were granted for low-valued and raw commodities. Higher rates governed the movement of processed commodities and those of high value. When first established, the low rates for low-value primary products covered the direct costs of rail haulage and made a relatively small contribution towards overhead. Rates on processed goods and high-value commodities, while intended to offset the relatively low return on unprocessed and low-value products, were nevertheless not so high as to prevent or discourage their movement.

"Such, in essence, were the historic considerations which shaped the freight structure. For many years no circumstances of sufficient magnitude arose to justify re-examination of the underlying principles governing that structure. It met the transportation needs of producer and consumer alike and at the same time served the financial requirements of the railways.

"Today, however, the situation is vastly different from that which hitherto has prevailed. No longer are railways the exclusive means of transportation for the high-value traffic upon which they relied to offset the marginal revenues derived from the haulage of primary commodities. The growth of other modes of transportation has rendered high-value traffic vulnerable to competition.

"Highway trucking, of course, offers the major competition confronting the railways. No one would wish to deny that the trucking industry has an important place in the economy. The relative flexibility of operation and the initiative and enterprise of that industry have combined to develop new trade and traffic which, in part, might not otherwise have come into existence. Truck competition has however, become more intensive because, unlike railways, the trucking industry is not required by law to carry all types of traffic at published scales of rates, enjoys the privilege of using public highways at low cost, and is relatively free from regulation.

"In other circumstances the railway industry would be in a strong position to meet the emergence of truck competition because the average of truck costs is probably three times the average of rail freight costs.

"Averages, however, are often misleading. In 1952, while the average cost of freight shippers using your railway was only 1.3 cents per ton mile, railway freight rates ranged from about one-half cent per ton mile on a large volume of traffic to 10 cents and more per ton mile on certain high-value commodities. It is, of course, the latter commodities which are most vulnerable to truck competition.

"The serious problem confronting the railways is that of meeting truck and other competition while they themselves remain bound by a pattern of rates designed at a time when competition was a relatively unimportant factor.

"It is natural that those areas where development in the first instance was dependent upon those early transportation policies governing the freight rate structure, should be reluctant to see any change in the principles which then underlay such policies. Yet fears that such areas might be adversely affected by any change in the basic principles of the freight rate structure, designed to make that structure serve better the future development of all of Canada, are, I believe, ill-founded. Such changes would, I am confident, not only leave unimpaired the prosperity of the areas affected but would, at the same time, react to the benefit of the entire country.

"The need for greater freedom in rate-making is not felt in Canada only. In the United Kingdom recognition of this need has found expression in the repeal by Parliament of legislation which had hitherto deprived British railways of equality of opprotunity to compete with highway transportation. Important new principles aimed at bringing about greater flexibility in rate-making have been adopted. In the United States, too, there is a growing awareness of the need of the railways for relief from outmoded regulations. Action to remedy the situation is being taken which, it is expected, will find expression in legislative proposals to be presented to Congress later in the year."

To Form Miller Secs. Co. in New York

Morris Miller will shortly form Miller Securities Co. with offices at 39 Broadway, New York City, as successor to Peter W. Speiss Co. Mr. Miller is a partner in Peter W. Spiess Co., and was formerly with Degetano & Spiess.

N. N. Allen Opens

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Nolen N. Allen is engaging in a securities business from offices at 3715 Wilshire Boulevard.

America Looks Ahead

By HON. STYLES BRIDGES*
U. S. Senator from New Hampshire
Chairman of the Senate Committee on Appropriations

Sen. Bridges, laying blame for inflation to "irresponsible fiscal policies of previous Administrations," lists as achievements of the new Administration: (1) in foreign affairs the U. S. has regained offensive long held by the Communists; (2) the Defense Department is being streamlined; (3) sound fiscal policies have been restored; (4) free markets are being restored; and (5) a further step has been made in direction of a free economy by reducing margin requirements for stock transactions. Concludes, "America can look ahead with optimism and confidence."

It seems to be appropriate that we consider the legacy which was inherited by the new Administration and the steps which have been taken by that new Administration in the last four months. In this manner we can get some indication of what the people of America can expect in the years that lie ahead.

Sen. Styles Bridges

For the first time in 20 years it is possible for me to speak to an audience like this with a degree of optimism for the future.

You represent the millions of thrifty Americans who, through consistent and orderly savings, have been attempting to provide financial security for the autumn of their life.

I have always been dedicated to the principle of systematic saving as a means of attaining specific objectives and ultimate financial security. Therefore, it has been very difficult for me in the past to appear before groups of your kind and to justify the conduct of our government. Deficit financing and inflation sometimes made it seem unwise to attempt to save for the future.

The irresponsible fiscal policies of previous Administrations depreciated the value of our money to such a point that those who practiced frugality were in reality penalized. The reckless and uncontrolled inflation exceeded the normal returns which were received by those who saved. Thus it came about that many individuals who purchased government bonds for $18.75 and kept them for 10 years ultimately derived only about $14 in purchasing power from their original outlay, even though the face value of their matured bonds said $25.

I fought unsuccessfully against the policies which caused this situation. I felt that to allow this to happen was to break faith with the American people.

The new Administration has been in office but a few months. Already we have succeeded in reversing the whole direction of government.

I can not help but feel that the most important achievements which we have made to date are in the field of foreign affairs, national security and those which are aimed at reducing government expenditures, ending inflation, freeing business from controls, stabilizing the value of the dollar, balancing our budget, and establishing sound fiscal policies.

As we gradually attain these objectives we will restore the confidence of the people and encourage them to practice thrift in their daily lives.

*An address by Sen. Bridges at the 33rd Annual Conference of the National Association of Mutual Savings Banks, Washington, D. C., May 12, 1953.

I would like to submit a brief report to you as to the accomplishments of the new Administration to date. I submit this reckoning not as a partisan, but as an American reporting the record of an American Administration to the American people. In part, the record thus far has been the result of the endeavors of conscientious Americans of both parties who are striving to strengthen our nation.

The Inheritance

When President Eisenhower delivered his State of the Union message to the Congress on Feb. 2, 1953, he said:

"It is important that all of us understand that this Administration does not and cannot begin its task with a clean slate. Much already has been written on the record, beyond our power quickly to erase or to amend."

The legacy to the new Administration is an appalling one. It is well to review just what was written on the record in January, 1953:

(1) War in Korea with neither victory nor peace in sight.

(2) Communism rampant throughout the world with the non-Communist peoples on the defensive.

(3) Europe neither stabilized nor strong enough to stand against the Communist menace.

(4) Economic and military commitments abroad, vast and sprawling, unorganized and uncontrolled!

(5) Waste and extravagance draining our labor power and depleting our natural resources.

(6) Phoney prosperity based on the unhealthy fever of war, excessive government expenditures and inflation.

(7) Oppressive taxation with a national debt $262 billion.

(8) Gigantic bureaucracy which furthered creeping socialism and threatened to regiment our lives.

(9) Corruption and malfeasance in public office.

(10) Communist infiltration into the sensitive policy-making agencies of our government.

This was the inheritance. This was the legacy. These are the problems that confronted us. What have we done about them.

Foreign Affairs

The most significant accomplishment in the field of foreign affairs which has been made by the new Administration is that **the United States has regained the offensive which has so long been held by the Communists.** No longer do we wait to see what the Communists do before we initiate a program of action. The world now knows that the American people are determined that our way of life shall endure and that the cause of free people shall not go down by default.

President Eisenhower has discarded wishful thinking in dealing with Communists, and has adopted a "show me" attitude. As the President said:

"We welcome every honest act of peace. We care nothing for mere rhetoric. We care only for sincerity for the peaceful purpose—attested by deeds."

We have replaced the desolate Acheson policy in Korea with one which has a definite goal, and which will enable the United States to finish its job and to discharge its obligations to the free peoples of the world. We are determined that there must be a finish to the idea of war without victory and casualties without end.

Specifically, we have:

(1) Taken the wraps off the Chinese Nationalists;

(2) Expanded the South Korean forces;

(3) Effected the interchange of sick and wounded war prisoners;

(4) Revised our whole program of psychological warfare;

(5) Curbed the flow of trade with Communist China;

(6) Began a program of cleaning out the subversives and left-wingers employed by the United Nations;

(7) Instituted a new security program which already has resulted in the discharge of several dozens of persons from the Department of State as security risks;

(8) Notified the European members of the NATO Organization that they can expect our aid only if they contribute to the maximum of their capabilities. The give-away Santa Claus operations of the Fair Deal are at an end;

(9) Commenced a reevaluation of military, economic and moral commitments looking forward to the abolishment of services, activities, and functions which are not essential, or which impair the economic and military capabilities of the United States of America.

The actions of the new Administration in the field of Foreign Affairs demonstrates that no longer will the American people be subjected to a Foreign Policy of "Fits and Starts." No longer will the American people be told that peace is just around the corner and then the next day be scared to death with threats of war.

We may reasonably expect a firm consistent foreign policy which is aimed at promoting the security of the United States and the cause of free people throughout the world.

National Security

The new Administration considers defense and national security as sacred obligations. We recognize that **reckless commitments or uncontrolled expenditures do not strengthen the defense or the economy of a free enterprise nation;** rather, in the long run, they are detrimental or even destructive of such a society.

In less than five months, therefore, under the leadership of President Eisenhower, we have:

(1) Begun a program of streamlining the Defense Department to cut down on non-essential military spending;

(2) Begun an intensive study to find out why American boys fighting in Korea were not adequately supplied with ammunition and the weapons of war;

(3) Exposed and eliminated waste in construction and in the stockpiling of critical items;

(4) Begun a review of our entire preparedness program to strip it clean of waste, lack of coordination, inertia and conflict between the services.

In the Congress of the United States, we have continued the functions of the Preparedness Subcommittee of the Senate Armed Services, the Internal Security Subcommittee of the Senate Judiciary, and the House Committee on Un-American Activities.

The new government-wide security system which has been put into effect will insure the tightest possible security program, with the minimum of danger to the civil liberties of our people. We are squarely facing the proposition that in sensitive positions of our government when a reasonable doubt has been raised as to the "security risk" of an individual, **that doubt must be resolved in favor of the United States.**

I have had many years of experience as a member of the Appropriations Committee and Armed Services Committee of the Senate, and **I am convinced that more defense for less money can be achieved by sound business practices.**

You have probably read of the shocking incident recently publicized in which the Army Quartermaster Corps spent $45 million purchasing a new type overcoat with built-in leggings. After ordering over a million of these booby-trap overcoats, it was found that the zipper pants wouldn't work, and another million dollars was spent to chop the pants' legs off the overcoats. What happened to the overcoats eventually has not yet been established, but we do know that $45 million hard-earned dollars went down the drain. We are determined that this sort of thing shall not occur again.

In the future the American people can expect a national security program which will provide maximum security at a reasonable level of expenditure which can be maintained over a period of years. The new Administration has demonstrated that it realizes that the foe we face will be a constant threat for years to come, and therefore we cannot afford to jeopardize our whole economic structure by unreasonable wasteful and inefficient "one shot" expenditure of our material and human resources.

Domestic Issues

The accomplishments that have been made already in the field of foreign affairs are of tremendous importance, but it is in the domestic field that actions, perhaps less dramatic but of deep significance, are being taken.

As Chairman of the Senate Appropriations Committee it will be my responsibility to play a major role in fulfilling the pledge of the Republican Party to eliminate the deficit financing of the previous Administration and to restore sound fiscal policies.

With the whole-hearted cooperation of my associates on the Committee, we are hopeful of doing a creditable job for the American people.

The outgoing Administration requested the Congress to approve

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Marketing Challenge of Post-Defense Period

By JAMES J. NANCE*
President, Packard Motor Car Company

Stressing importance of an achieved dual economy, which permits both defense and civilian goods in ample supply, Mr. Nance sees a favorable aspect in recent easing of international tension. Says answer to fear of post-defense over-production lies in dynamic distribution and rebuilding our selling strength and marketing structure. Foresees a squeezing out of waste and inefficiency in marketing, and a relearning of the arts of creating demand.

An appraisal of the outlook for marketing today must be preceded by an appraisal of the national and international situations. Historically, the marketing outlook has been determined by economic factors; as we look into the future we see marketing results as the controlling factors in our economy. But basically, the course of our defense program, whether it goes up or down, will determine what is expected of distribution. These factors are the background of the marketing challenge today.


James J. Nance

As the defense program abates, the full importance of the new marketing responsibility becomes very evident.

Several weeks ago when I settled down to make some notes for this talk, my first reaction was that I was right in the middle of a dilemma. Current developments were coming thick and fast. More often than not they seemed conflicting, irrational or both.

For example: within a few days after shooting down an American and a British plane in Europe, and taking some pot shots at an American plane off the Aleutians, the new Russian government and its allies suddenly adopted a conciliatory attitude which culminated in the prisoner exchange in Korea. Then in this country we had what the slogan writers quickly dubbed "a peace scare." Stock and commodity markets broke sharply.

The press was promptly filled with economic forecasts ranging from rosy optimism to near purple pessimism. For a time it seemed impossible to see the forest for the trees. At that point, I must admit, I had serious misgivings about appearing here and discussing anything but the weather.

The more I considered the picture, however, the stronger my conviction became that our fundamental situation had not greatly changed and what change had occurred was decidedly favorable.

The Dual Economy Has Been Achieved

I don't need to argue before this audience the question of whether "peace"—or more precisely, an easing in international tension—is favorable. That is what we have been fighting for ever since we entered World War II in 1941.

Current developments may permit some reduction in our armament program and in assistance to our allies. We can devoutly hope so. But the basic fact of controlling significance to you and me as business men can be summarized in one sentence. The dual economy this nation set out to create three years ago when the Communists attacked in North Korea has been achieved. Barring the outbreak of big scale shooting war, day to day developments are not going to alter that fundamental fact or its implications.

Right now, civilian goods are being turned out in quantities equalling or exceeding previous records. For example, passenger automobile production has recently been running at an annual rate exceeding seven million units. Between three and three and one-half million cars will be produced in the first half of this year compared with four and one-third million in all of 1952. Television sets are pouring off the production lines at an annual rate of seven and one-half to eight million units. Household appliances such as refrigerators, ranges, freezers and washing machines are being produced in total quantity approximating 1950 output.

From all the signs we are well on our way to building more than a million new housing units again this year. In the soft goods lines there is equal abundance.

Meanwhile, according to the most recent government figure I have seen, deliveries of military goods and defense construction are runing at an annual rate exceeding $40 billion.

There are, of course, still a few tight spots in raw materials. Sheet steel is an example. Expansion to eliminate these is in progress, however. And despite the tight spots we are producing in the prodigious quantities I have already indicated.

So when anyone talks about the Dual Economy or production all I can say is "we've got both." And whether the defense program is slowed down somewhat or accelerated a bit because of day to day international developments will not materially alter this basic situation.

Will There Be Over-Production?

After some 13 years in which war and defense created shortages have kept the emphasis almost entirely on production to overcome shortages, we are back into a free market with the flow of goods fully equal to demand. Many people are gravely concerned about this. They feel that our present rate of production is actually over-production and cannot long be maintained. Whether this fear is justified or not will be determined by many events which themselves are as yet unresolved.

What the government, business men and—most specifically—you men of marketing do in the near future will control the outcome. I have no predictions to make.

I believe however, that the answer is to be found in dynamic distribution. In recent years there has been a great deal of discussion of the need to rebuild our selling strength. Every word has been true and pertinent. The concept of dynamic distribution goes much beyond that, however. It begins with top management planning for production that will maintain a high level utilization of plants and work forces. Prices are then based on such volume and the costs needed for a marketing program strong enough to move the volume are factored into costs. Thereafter reliance is placed on marketing—demand creation if you will—to carry the production through to the consumer. Indiscriminate price slashing and other fire sale methods of dumping rather than selling merchandise have no part in dynamic distribution. They are, in fact, its very antithesis.

As marketing men you know that dumping is self-defeating because it serves only to encourage prospective buyers to wait for a further price slash. When it occurs it is a tacit admission that business planning failed. Either production was scheduled too high or marketing effort was planned too low.

It is of cardinal importance, I believe, that American business keep this concept of dynamic distribution uppermost in its thinking in the months ahead. For 13 long years the economy has been artificially supported by war and defense demand. Planning, you might say, has been in the hands of government. Now business is again going to have the responsibility for planning the level of activity and then seeing that its plans are carried through successfully.

When I use the term business I do not mean only our great industrial organizations. I am thinking of every business, large and small, from factory through distributor to retailer or dealer. I have no doubt there will be some in all categories of business who will not want to stay in the game when dynamic distribution is necessary for survival or even modest success. Many businesses were started in the easy era of the military economy of shortages. Many others grew rich by virtue of circumstances rather than effort. Their proprietors may now choose to draw down their chips in preference to facing the risks and the need for hard, creative effort which are inherent in a free economy.

Marketing Structure Will Have to Be Expanded

As marketing men, one of your prime responsibilities in the future will be to replace such casualties with new vigorous enterprises. I am certain that to maintain consumption in line with the present productive capacity of our industry casualties will not only have to be replaced but the size and manpower of our whole marketing structure will have to be materially expanded. I am equally convinced that the share of business revenue devoted to advertising promotion, merchandising and marketing research will have to be increased.

Some of you men will find it no easy task to sell this idea to your top management, I know. Because all the emphasis has been on production for so long, many production people who are not accustomed to dealing with marketing problems have risen to top management. Probably more often than not such managements will have to be brought to a new way of thinking by you.

I think I should say here that I am not describing a sort of bonanza period for the marketing profession in which its practitioners will be given an infinite sum of money to accomplish their jobs. We all know that plenty of waste and inefficiency has crept into marketing in the last dozen years. For the coming competition, these will have to be squeezed out and fast. There has been a lot of costly research that sold no merchandise. And there has been a colossal amount of advertising that did the same. We have had, you might say, some truly brilliant examples of failure with no penalties resulting except to Uncle Sam in his tax collections.

While touching on the marketing man's job there is another point I would like to make which I think is of utmost significance. He must keep his finger on the pulse of the actual movement of his product to consumers. If inventory begins to pile up it may devolve upon him to fight for a cutback. Production has been an end in itself for so many years that there may be a tendency to try to force production out by loading distributors and dealers. The end result of such a course is dumping and a weakening of the distributing organization. I can think of nothing that the American economy can less afford than to weaken its marketing organization today.

I don't need to tell you that our marketing organization has been allowed to deteriorate for almost 20 years. Salesmen haven't been developed, and many wholesalers and dealers have almost forgotten what hot competition is. Yet they will soon be expected to move perhaps double the quantity of goods they sold 15 years ago.

The answer is to build and assist our sales forces by every means we can devise. Marketing people have been telling each other this for several years now. But progress has not been very marked. The day is here now when we need action, not words. Meanwhile production, which has been carried through 13 years of expansion by a forced draft war economy, cannot expect marketing to catch up the lag overnight.

From some of the things I have been saying you may think I am pessimistic. I am not. But I am realistic. We have a tremendous job ahead of us.

A Favorable Economic Climate

We are still favored, however, by the general economic climate. The market is ideally suited for a revival of dynamic distribution. The market is what you might call a salesman's market. Certainly it is not a buyer's market. As I define it a salesman's market is one in which employment and income are high so that people have buying power. At the same time, production is also high. Such a market can be kept in balance at a high level of production and turnover by creative salesmanship, which means actual demand creation. To me, the term buyer's market, which we so often hear used, means another thing. It involves a condition in which because of mass unemployment buying power to clear maximum, or near maximum, production is literally lacking.

What I am saying, of course, is that the power to buy and production are functions of each other. When one exists so does the other.

I believe we can maintain the economy in balance at a high level of operation. To do so we are going to have to relearn many of the old arts of creating demand. We are also going to have to improvise new methods. And we are going to have to change some old ideas which no longer fit the picture. Let me illustrate. On the point of relearning old arts, I'll take the auto industry.

After 13 years of sitting in their showrooms waiting for customers to come in and clamor for their short supply of allocated new cars, dealers are now beginning to hunt prospects, try for demonstrations and make sales by personal solicitation. One of these days you may be surprised by a call from a dealer who checked back and found he sold you a car two or three years ago. He'll try to get you out for a demonstration and show you all the improvements and features that should make you want to trade right now. If that happens to you, you may think back and realize that an auto dealer hasn't rung your phone or knocked on your door since the 1930s.

Example of the Appliance Industry

The appliance industry offers an excellent example of improvising a wholly new way to make a sale. I am referring to the so-called food plan to sell home freezers. Shortly after World War II the home freezer industry was generally considered in the industry to be the appliance least likely to succeed. And it didn't move very well even in the acute shortage years. Then a couple of years ago some enterprising marketer thought up the food plan with this result. In the last two years, 2,300,000 freezers with a retail value of $800 million were sold. That almost equalled the total sale of freezers in the five preceding years.

On the question of adjusting our thinking to changed conditions we might consider the question of the use of installment credit.

The Role of Consumer Credit

Recently we have heard a great deal of discussion as to whether consumer credit generally, and installment credit in particular, are too high. Much stress is laid on the fact that total consumer credit rose $3⅓ billion in 1952. Approximately 90% of the $3⅓ billion increase last year was accounted for by a rise in installment loans to a total of $16½ billion at the end of 1952 from $13½ billion a year earlier.

Without attempting to join the debate on the merits or demerits of this increase I think a few of the related facts are being overlooked by some folks who are critical.

First, regulation W was removed on May 7, 1952. Since W had been artificially restraining installment buying, it was natural that such lending should have risen sharply when the restraint was removed.

Second, the production of civilian hard goods on which installment loans are made rose considerably last year compared with 1951.

Third, as of the end of 1952, total consumer credit represented 9.8% of the year's total disposable personal income. In 1940 the ratio of the same two figures was 10.78%. Installment credit at the close of 1952 represented 6.8% of the year's total disposable personal income as compared with 7.15% in 1940. Automobile installment credit was only 2.14% of disposable income compared with 2.28 for 1940.

Those figures don't suggest to me that either the American consumer or the American banker is getting himself out on a limb.

Fortunately for all of us, the number of families who have incomes above the subsistence level has also risen greatly since 1940—not only in absolute terms but in the share of families within the total. And, of course, only such families are in a position to buy the high standard of living items on which installment loans can properly be made. There was a time when the American family could not use a loan for what might be called investment in capital goods except for the purchase of a home.

Our economy was not productive enough to provide either the goods or the buying power for any except a handful of rich families with more than mere shelter and the barest essentials for daily living.

The fact that we have left that point far behind in the last 50 years is what many people are beginning to call the American miracle. One of the inventions necessary to achieve this progress was installment credit. Without such a financial invention all the inventions that have given us mass production would have been ineffectual. To provide the mass market required for mass production consumer credit for capital goods was an absolute necessity.

That elementary point, gentlemen, brings me back to the basic philosophy which I think we will come to adopt regarding installment lending. Such credit must be viewed as an arm of merchan-

*An address by Mr. Nance before the American Marketing Association and the Sales Executive Club of New York, New York City, April 28, 1953.

dising exactly as capital loans to industry are accepted as a normal function of production. It is not the absolute amount of installment credit outstanding at any one time which is of controlling significance but rather its relationship to production, which provides both the income and the collateral to sustain the credit.

In reviewing these factors related to the type of dual economy we have had for the past two years, we can plainly see that that period is drawing to a close. We have reached the end of a shortage economy based on war and defense.

The Challenge to Marketing

The challenge to marketing is whether it can meet the big test and maintain a high level economy without government planning or artificial supports.

The answer to the question of whether or not we can sell what we produce, without disorderly marketing and liquidation, is in our hands and part of that answer is found in the answer to another question.

Does business want to accept the responsibility of operating in an entirely free economy without government support? Perhaps another question is: Is business and industry ready to support dynamic distribution? To do this means a complete reversal of the thinking back of marketing that has operated successfully since the outbreak of World War II.

Our economy has been going at break-neck speed since then under forced draft—for 13 years.

Production under government support and urgency has made great strides and tightened itself to where its output is potentially strangled. That production was achieved by planning by industry and business, but it was underwritten by the government.

The introduction of an attitude of dynamic distribution—a creative, planned, high-volume sales period—is the only assurance the nation has to sustain the balanced economy that the government has sponsored for more than 20 years.

The nation expects a level of production that will make full employment for everyone. This does not even except the drones and laggards; it must provide an ever-rising standard of living for a big job to be done. That is the challenge of the post-defense peak period.

We have a very healthy environment in which to do this job, but it is not going to happen unless it is planned and projected with the same kind of energy that built mass distribution in this country.

So, I wish to leave you on that thought. The nation looks to distribution to keep in balance an economy that has been expanded for a dual purpose—even though we must educate the nation to even a higher standard of living to absorb the high outputs of our industrial machines.

Josephthal Co. Adds

(Special to The Financial Chronicle)

BOSTON, Mass. — Gordon H. Snyder is now with Josephthal & Co., 19 Congress Street.

With Waddell & Reed

(Special to The Financial Chronicle)

AUSTIN, Minn. — Louis Langbehn is now with Waddell & Reed, Inc.

Joins Blyth & Co.

(Special to The Financial Chronicle)

PORTLAND, Ore.—Nicholas G. Smith has become associated with Blyth & Co., Inc., Pacific Building.

Robert G. Hopwood

Robert G. Hopwood, partner in Piper, Jaffray & Hopwood, Minneapolis, passed away on April 27.

"Paging Joe Public"

By G. KEITH FUNSTON*

President, New York Stock Exchange

In describing the New York Stock Exchange educational program to expand public ownership of securities, Mr. Funston lists as motivated objectives: (1) creation of a nation of share owners as defense against foreign "isms"; and (2) wide public ownership of means of production to insure proper functioning of our capitalistic society. Lists benefits afforded by the Stock Exchange in bringing investor and industry together, and reveals a program: (1) to have tax laws revised; (2) to effect revisions in Securities and Exchange Act; (3) to carry on research and (4) to adopt an entirely new securities merchandizing approach by instituting instalment purchasing.

Every industry has its problems and its responsiblities — that's merely part of being in business. But the securities industry probably has more than its fair share because it is so closely linked with the public interest and so closely tied in with the fortunes of the companies whose securities it handles. The Exchange's responsibilities, of course, are of our own choosing — and they are also a matter of considerable pride with us. As for our problems, some we have inherited, some have been thrust upon us.

G. Keith Funston

I'd like to talk about a few of these problems and responsibilities. At the same time, I'd like to tell you about some of our thinking concerning the future.

In recent years the Stock Exchange, working more and more intimately with our listed corporations—many of them in this area, I am happy to say, are represented here tonight—has carried on a campaign to spread share ownership. Our stated objective is to encourage the public ownership of industry so that everybody has a vested interest in our free and enterprising business system.

An Educational Program

To accomplish this we are engaged in a national educational program which is reaching the public in a number of ways. Each of our advertisements in newspapers and in "Life Magazine," for instance, has an audience in the neighborhood of 50,000,000 persons. Our new motion picture, released about a year ago, has already been seen by more than 4,200,000 people. "The Exchange" magazine has a direct monthly circulation of around 70,000 persons and an indirect audience, via newspapers and radio, which runs into the millions. We act as host to more than 1,000 persons who visit the Exchange each day.

The nation's press is the Stock Exchange's best friend, both in the news and editorial columns. We discovered recently that approximately eight out of every 10 daily newspapers in large United States cities either publish our stock quotations, a news account of the activities of the market, or both. We count it a great privilege to be available to the press 24 hours a day and I assure you we do everything in our power to merit and retain the confidence they have shown in us.

The Stock Exchange, as you know, is not a profit-making organization and the funds available for our nationwide educational work are limited accordingly. Actually the total we do spend is dwarfed by the sums devoted by industry to the same good cause. Industry is spending many millions of dollars annually to tell the public about shares and share ownership. That is a partnership for which we are grateful.

Industry's theme parallels ours: A share in the productive wealth of our nation is available to everyone. The story is being told with skill and honesty. Employes are being encouraged to buy shares in their own companies and in many instances to attend company sponsored classes in economics. Stockholder relation programs are establishing closer liaison and understanding between the management and the owners of a company. And just recently labor paid us a fine tribute with a full-page advertisement entitled "There's No Stock Exchange in Moscow," which was carried in one of the most influential union newspapers in the country.

The Underlying Motivations

What basic motivations underlie our efforts to broaden share ownership? Why precisely are we all engaged in tackling this herculean task of distributing ownership of industry throughout the nation?

There are two excellent reasons, each based on an enlightened self-interest:

First, a nation of share owners is our strongest defense against the foreign isms that would sap our vitality as a nation and eventually turn us over to the evil enemy we know as communism. We can preach the virtues of capitalism until we grow blue in the face—but one stock certificate in the name of Joe Public is a stronger argument than all the oratory of which we are capable.

Second, public ownership of the means of production is perhaps the only way by which we can insure the proper functioning of an enlightened capitalistic society. Such a society needs, and will continue to need, hundreds of billions of new capital for plant and equipment. The only satisfactory and adequate source of such funds is Joe Public.

Our democratic political system is the best yet devised in terms of its ability to create the greatest good for the greatest number. The wisdom of the men who wrote the Constitution has been justified year by year for more than a century and a half. It has never been more clear than today that political democracy is the one concept which eventually will bring peace and prosperity to a troubled world.

At the same time we have discovered that a dynamic capitalism is the best system yet devised to satisfy the material wants of all the people. It is noteworthy, I believe, that the two systems—political democracy and economic democracy—are so compatible.

I believe that we have in our grasp the opportunity—the profound responsiblity — to make American capitalism work so well that there is not one square inch of fertile ground left to receive the seed of communism.

Political freedom makes possible economic democracy but the latter, like any other noble concept, must be worked for diligently. It can evolve only slowly and cannot be expected to burst forth suddenly. The Exchange's program for broadening the base of stock ownership is a step in this evolutionary approach toward complete economic democracy.

The Role of the New York Stock Exchange

The New York Stock Exchange is the heart of the modern free enterprise economy. It is the nation's market place for securities, wherein any person can become an owner of America's productive enterprise.

The Exchange's primary obligation is to the public. It is our duty to provide the public with an honest, efficient and liquid market place where they can readily convert securities to cash and cash into securities. There can be no deviation from that principle.

Our secondary obligation is to industry. We must provide a broad and liquid market for securities, for the Stock Exchange is essential to raising new capital for industry. We must continue to provide that kind of market and we must rid ourselves of the obstacles—such as the capital gains tax, the double taxation of dividends and discriminatory regulations — which impede our proper functioning.

In the Constitution of the New York Stock Exchange is a trenchant statement of business principles. I personally take great pride—as I know every member and allied member of the Exchange does — in being associated with an institution committed to these lofty ideals. The object of the Stock Exchange, our Constitution declares, is "to maintain high standards of commercial honor and integrity among its members and allied members; and to promote and inculcate just and equitable principles of trade and business."

That enunciation of principle does not lie dormant in our Constitution, to be hauled out of the archives from time to time, dusted off for public inspection, and then carefully laid away again. Those principles live with us in the day-to-day conduct of our business; they are a constant reminder of our responsibilities, a constant prod to improve our way of doing business. Our 1,375 members, their more than 3,100 partners,

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*An address by Mr. Funston at dinner given by the St. Louis Chamber of Commerce for the Association of Stock Exchange Firms, St. Louis, Mo., May 11, 1953.

Suggestions for Tax Revisions

By FRED MAYTAG, II*
President, The Maytag Company

Business executive, asserting support of government is job of all the people, finds flagrant disregard for this fundamental principle in our present tax system. Says we need to achieve a better balance in the Federal Revenue pattern, and that it is hazardous to depend so largely on income taxes as a revenue source. Favors a uniform consumption tax as supplement to income taxes, and calls for broadest possible basis for specific taxes.

In a sense, the history of taxation is the history of trial and error. The need for revenue being as old as government, one government after another has tried just about every conceivable method for extracting a portion of the people's substance to pay for its necessary or unnecessary expenses. At one time or another, taxes have been levied on gypsies, salt, caviar dealers, seaweed, wives, and the lack of wives. The ingenuity of governments in imposing taxes has been exceeded only by the ingenuity of tax payers in avoiding them.

Fred Maytag II

Had taxes always been matters of certainty and convenience, had they always been levied with appropriate regard for the capacity of the individual and the economy, perhaps armies of tax collectors might not have been required to collect them.

Except in the case of a conquered people or a rebellion against a particular government, the fact has been generally accepted that taxes are necessary. But this premise usually has not been carried to its logical conclusion, which is that the governed—all of the governed—must support their government and pay their proportionate share of its cost.

I doubt if there are very many citizens so ignorant as to believe that a government has any source of revenue other than what it collects from the people; but I am sure there are many—far too many—who believe that government can and should collect the taxes from "somebody else." Unfortunately, many of our law makers have been all too willing to encourage this fallacy.

My point of departure for this discussion, then, is a belief in the fundamental truth that support of the government is the job of all the people.

Equitable Principle Ignored

A look at our recent tax history shows flagrant disregard for this fundamental principle that the cost of government should be distributed equitably among all its citizens. Much of the trial and error in our taxing efforts has centered on the question of who should pay the taxes. The steeply progressive income tax, for instance, results from the idea that it is primarily the rich whose income should be diverted to government uses. Further difficulties stem from questions as to what specific things should be taxed. The pattern of selective excise taxes, for example, almost obscures the fact that it is consumption which is taxed, not merely salt, or tea, or tobacco, or any dozen other specific items.

When the amount of tax revenue collected is relatively small, the selectivity of taxation is apparent and the absence of a broad base is obvious. On the other hand, when tax revenues amount to 25 or 30% of national income, as at the present time, selectivity is apt to be camouflaged by the sheer volume of taxes. Extension of the structure itself conceals the narrowness of the base.

Ironically, it is at the very time when large revenues are required that the need for a broad tax base is greatest, not only philosophically, but as a practical fiscal matter.

A business man looking at his sales problem wants the broadest possible market for his product. The broader his sales base, the greater is his potential volume of business and the lower his possible price. On the other hand, a restricted market permits only small volume and requires a higher price.

I think there is a parallel between this and taxation. When the tax base is narrow, we not only require high rates in order to produce a given amount of revenue, but we more quickly reach the point of diminishing returns. As I will point out later, this is demonstrated by the operation of our progressive income surtaxes.

Broad Base Essential

My thesis, then, is that a broad base is an essential requirement of sound tax policy and that any proposed long-term remedies should be considered in this light. There is no easy, no magic, no painless way to provide necessary government revenues. We should not perpetuate a tax structure which in many ways is based on the idea that we can "do it with mirrors."

Now I know the view exists that we cannot begin to apply long-term remedies until we have let the so-called automatic repealers in present law become effective. I would like to suggest, however, that these repealers be examined carefully and that, where feasible they be adjusted in such a way as to move toward a broader base to our tax system.

These scheduled tax reductions—excluding the excises which I want to discuss separately—are estimated to reduce revenues just over $2 billion in the fiscal year 1954, and less than $7 billion in fiscal 1955. It is not for me to predict the specific avenues which will be followed to reduce government expenditures, but I am confident that a determined Congress, adequately supported by a vocal electorate, can effect economies sufficient to offset these reductions in revenue.

EPT a Job-Killing Tax

The first scheduled reduction is termination of the excess profits tax as of June 30. This tax has the narrowest base of any of our major taxes, and is fantastically discriminatory. It is a job-killing tax of the worst sort. It puts a penalty on efficiency and progress, particularly punishing small, new, and growing business. Such a tax has no place in a sound fiscal system at any time. Its bad effects are general admitted, both in and out of government. The only real question about its elimination on June 30 is whether or not we can stand the revenue loss.

Now, I firmly believe that tax reductions should be achieved within the framework of a balanced budget. I am not one of those who advocates cutting taxes first and reducing expenditures later. But I am afraid I may have to compromise that view with respect to the excess profits tax. The question is almost academic, however, because EPT, in keeping with its selective character, is a very poor revenue producer. I understand the latest government estimate, made before the turn of the year, is that expiration of the tax will reduce revenues only $1.3 billion in the next fiscal year. This estimate may be on the high side. In any event, it is less than 2% of total estimated revenues. I don't believe one needs to condone deficits to say that the excess profits tax should expire on schedule.

The next scheduled reduction is expiration on Dec. 31 of the 1951 increases in individual income taxes, which amount to about 11%. Surely it is desirable to give all income tax payers at least this much reduction. I would like to suggest, however, that consideration be given to combining this anticipated reduction with at least a modest correction of the over-all rate structure. Wouldn't it be desirable, and wouldn't this be an opportune time, to make some attack on progressivity as such?—especially if it can be done at relatively low cost in terms of reduced revenues.

The first bracket rate, or normal tax, does provide a broad base for individual income taxes. There is no question about that. It is in the super structure of progressive rates that we have committed our worst sins and most flagrantly violated the principle of imposing taxes upon a broad base. When income taxes were first imposed, the aim was merely to get revenue. Rates were very low. Some few persons foresaw the danger of high rates, but I doubt that even the worst alarmist could have foreseen the development of the fantastically discriminatory rate structure which now exists.

Karl Marx Philosophy

However, Karl Marx foresaw the effect of the progressive income tax. He placed it as the second most important point in his program. The Marxian logic was simple and prophetic; destroy through heavy graduated taxation the incentive and capacity of private investment and the destruction of private enterprise is inevitable.

On the average, it takes about $12,000 of investment in new plant and equipment to provide a job for each industrial worker. We may need as many as 6 million new jobs to employ the 1960 labor force. This will require new investment for net expansion of some $72 billion. In the last seven years, comparable investment has been only $30 to $40 billion. I think this is not generally understood because, while we are investing from $20 to $30 billion annually in new assets, 80% of this is required for the replacement of used up capital values and only 20% of it goes to create new jobs.

Reed-Dirksen Amendment

It is high time that we have the courage to make a direct frontal attack on high progressive rates. Perhaps the ultimate answer lies, as many believe, in a constitutional amendment, limiting the power of Congress to tax incomes. The movement for a constitutional amendment seems to be gaining momentum and one particularly interesting proposal is the Reed-Dirksen amendment. It seems to me that their proposal overcomes many of the objections which have been made to previous ones and that it is deserving of more attention than it has so far received. Essentially, it proposes to set a maximum top rate on all income taxes of 25% but permits going to any higher maximum if that rate does not exceed the lowest rate by more than 15 percentage points. I think the idea has merit but recognize that tne road to constitutional amendment is long and hazardous.

Suppose, however, that we look at short-time possibilities. If we acknowledge that something should be done about high progressive rates, what is a simple first step which might easily be taken without unduly hampering revenue results?

Source of Tax Revenue

There is widespread misunderstanding of the fact that it is the first bracket rate, not the progressive super structure, which provides most of the income tax revenue. The progressive structure has been mistaken by many for a Robin Hood formula for taxing the rich to give free government to the poor. It just simply isn't so. 84% of all the revenue produced by the indivdual income tax comes from the first bracket rate of 22.2%. Only 16% of the revenue is provided by the 69.8 percentage point spread between that and the top rate of 92%. It is this 69.8 percentage point spread which is the true surtax or progressive element of the rate structure. Stated in terms of dollars, the normal rate produces about $25 billion and the entire surtax structure produces only $5 billion. We pay a terrible price in terms of destroyed incentives for that $5 billion.

Actually, it would cost very little to combine a worth-while reduction in progressive rates with the relief which is scheduled to occur at the end of the year. For example, suppose the adjustment were made on the basis of a choice between the 1950 rates or a flat 25% reduction in the progressive element of each bracket. The 1950 rates would produce a greater reduction in the taxable brackets up to $10,000 but the 25% cut in the progressive element would produce a greater reduction in each bracket above that level. This would narrow the range of the progressive element from 69.8 percentage points to 54.5 percentage points and oroduce a new top rate of 74.5% instead of 92%.

This would be a real step in the right direction and it wouldn't cost very much since so little revenue results from the top rates anyway. The estimated loss of revenue from reverting to the 1950 rates is $3.1 billion. The additional cost of the alternative method which I suggest would be only $469 million. This is a small price to pay for so important a result.

If reduced government expenditures permit further tax cuts, perhaps a year or two after the first adjustment, the next step could be another 25% cut in the progressive element. This would involve revenue loss of a little over a billion dollars. Two 25% cuts in the progressive element would bring the structure within shooting range of the Reed-Dirksen formula.

So much for income taxes.

Consumption Tax Urged

Now, I'd like to talk a moment about the excises. The most recent increases in excise taxes are scheduled to expire on April 1, 1954 and I think this establishes a good target date for adopting a uniform excise tax as a substitute for the hodgpodge which we now have. Taxation of consumption items has long been a part of our Federal tax policy. For many years, in our early history, it provided the bulk of our national revenues, although it was highly selective taxation. The base was as narrow as the markets for the commodities taxed; mainly, liquor and tobacco in those days. These are the traditional things on which consumption taxes are imposed. As revenue requirements increased, however, and especially during recent war years when the graduated individual income tax had been pushed to the point of diminishing returns, other items were singled out to bear Federal excises. There are dozens of such articles, taxed at many different rates, but we have never faced up to adopting the *principle* of taxing consumption. At least, the Federal government has not. The States, on the other hand, have.

That a broad base makes for moderate rates is obvious when we contrast the one, two, or three percent sales tax rates levied by 31 States, with the 10, 15, or 20% rates imposed on selected items at the Federal level.

I do not want to go back over the ground which was so thoroughly plowed in this afternoon's session, or get into the many technical details of consumption taxes. I am merely arguing for the principle that a broadly based uniform consumption tax should be a substantial and continuing part of the Federal revenue system. It should be one tax, levied at one rate, and at one point in the economy. It could be imposed either at the manufacturers' level or the retail level. My personal feeling is in favor of the manufacturers' level, in order to avoid conflict with the States which impose retail sales taxes and to simplify and reduce the cost of administration.

There are several important reasons for a uniform consumption tax. Taxation of consumption provides a particularly stable revenue source. Consumers' needs and habits do not fluctuate rapidly or violently. Consumer spending changes much less rapidly than consumer income. Therefore, consumption taxation is a more stable revenue producer than income taxation.

Better Balance Needed

We need to achieve better balance in the Federal revenue pattern. At the present time, income taxes, individual and corporate, provide about 84% of all Federal tax receipts. Because these sources are highly responsive to changing economic conditions, it is hazardous to depend so largely on the receipt of income as a tax source. The two broadest possible bases for taxing the people's income are income taxes and consumption taxes. Wouldn't it be prudent to spread the burden between the two sources more evenly, in order to reduce undue pressure on one? If maximum leeway is to be provided for reducing income taxes, some broadening of the consumption tax base is inevitable. What other alternative is there?

Furthermore, the uncertainty of the international situation being accepted, if additional revenue were required, wouldn't it be desirable to have a broadly based consumption tax on the books, ready for service, instead of being forced to extend the base of the income tax by reducing exemptions?

As I see it, a broadly based consumption tax would not only minimize the need for broader and heavier income taxes—it would enhance the potential for income tax reduction. The ease of adjusting a uniform excise tax to changing needs is obvious.

Beyond the practical and economic reasons for greater balance between these two kinds of levies, it is quite possible that the 66 million income tax payers might prefer to trade a little more consumption taxation for a little less income taxation.

In this proposal to wipe out the selective excises and replace them with a uniform tax, I suggest only two exceptions: the liquor and tobacco taxes, being of such traditional and accepted character, should continue to be taxed separately; and, in the interests of excluding major neces-

*An address by Mr. Maytag at the Dinner Session of the Special Tax Conference of the National Industrial Conference Board, New York City, April 1C, 1953.

sity spending, the uniform tax should not apply to food.

As to the revenue effect I think, initially, it should be neutral. In other words, the rate should be established, initially, at a level to produce the same revenues which is now produced by the selective excises.

Conclusion

Now, in conclusion, let me briefly summarize:

We should be concerned not only with tax rates but with the kinds of taxes which are imposed. Every proposed revision of our tax structure should carry us toward rather than away from the basically sound concept that the cost of government should be borne by all our citizens. We should move towards a broader tax base and away from selectivity, discrimination, and high progressive rates.

The excess profits tax should expire on schedule. The scheduled reduction in individual income tax rates should be combined with a moderate attack on the progressive element of the rate structure. We should adopt the principle of a uniform tax on consumption by substituting a uniform excise tax at a low rate for the high excises on a very selective group of commodities.

These three specific steps would give us an excellent start in the right direction. When we start working toward the destruction of the progressive tax structure, it will stop working toward the destruction of our economic system.

All times of crisis, whether international, political, or fiscal, demand courageous application of sound principles. Up to now, so far as taxes are concerned, we have followed the line of least resistance. I think it's time for a change.

The Business and Money Market Outlook

By HENRY H. EDMISTON*

Vice-President, Kansas City Life Insurance Company
Kansas City, Mo.

Mid-West insurance executive lists grounds on which predictions of a business recession are based, but contends there is an excess of "bearishness," and on balance, there should be enough stimulating factors in the business picture to offset weak spots that may develop in individual industries. Holds the national income and business activity probably will continue at high level into 1954. Looks for further increase in interest rates and continued tightness in money market.

One's views about the business outlook must of necessity be tentative and subject to review and modification. Rapidly shifting events in the field of international politics exert a tremendous influence not only upon our decisions in the area of national defense expenditures which have a direct and profound influence upon business activity but also our business psychology which may in fact, over the short run at least, be even more important in determining the course of business expectations and decisions.

Henry H. Edmiston

We have experienced an unprecedented long period of high business activity and prosperity. National income has increased steadily for more than 10 years with only two minor interruptions, in 1945 at the end of World War II and in 1949 prior to the start of the Korean conflict. There have been numerous readjustments within particular industries but these have been of little consequence in the overall economic picture since high consumer income has been sufficient to keep up the general level of demand to a point where production and national income continued on to new peaks after each of these brief periods of hesitation.

With this long stretch of prosperity behind us there is a presumption at least that we might be facing a period of readjustment if not recession. Many business analysts have predicted that such readjustments should have occurred before now, and with the prospective leveling off of national defense expenditures, it seems to be the preponderance of informed opinion that there will be some decline in business activity and industrial production either the latter part of this year or during 1954.

Grounds for Expecting Recession

There is considerable ground for this position. Capital expenditures of business and industry have been at record levels for several years and such tremendous annual additions to plant and equipment by American industry would appear likely to taper off and decline. Basic commodity prices, moreover, have been tending downward now for over two years and farm prices in particular would have declined further had it not been for the government support programs that have maintained farm prices at artificially high levels. There has been weakness in prices of many industrial products also. The basic commodity index of industrial materials, for example, has dropped from nearly 160 at the beginning of 1951 to less than 95 today. The base of this index is average prices from 1947 to 1949.

The construction industry has been operating at an extremely high level of several years. Residential building with over a million new housing starts a year is at a rate wihch many people do not think can be maintained, particularly in view of the tightening of money in the mortgage market and the reduced level of family formations. The automobile industry, agricultural equipment industry and other important durable goods industries are running into sales resistance from consumers and current high levels of production in these lines appear in question.

The prospect of a truce in Korea with a curtailment in the national defense program coming on top of this background might easily produce an economic setback of considerable magnitude. The action of the stock market during the last two months reflects the general feeling of uncertainty about the future.

The big question is whether we can make necessary adjustments to a new situation without experiencing a decline in general overall demand that might become cumulative in its effect upon employment, income and general business actvity. Perhaps the starting point should be to review the prospective level of national defense expenditures. A great deal has been said about cutting back national defense expenditures in the event of a truce in Korea. In this connection it is important to note that national defense expenditures are currently running at an annual rate of around $49 billion a year, whereas the Truman budget for the fiscal year beginning July 1, calls for national defense expenditures of something in the neighborhood of $58 billion. The Truman budget, therefore, projected a further rise in national defense expenditures from present levels. The recent discussions in the press of cutting back expenditures thus are largely predicated upon cutting back from a level which is higher than we are currently experiencing. So far as I can determine even the most optimistic figures on possible reduction in the Truman budget will not mean an actual decline in national defense expenditures during the next year, but rather the elimination of the expected rise. It would appear, therefore, that government expenditures alone would not be a deflationary factor in the economy as a whole.

Exaggerated "Bearishness"

My own hunch is that other areas of the economy will not turn out to be as bearish as some analysts are predicting. Consumer buying as evidenced by retail sales has been holding up quite well this year. Automobile sales have exceeded general expectations and sales of other durable goods have been surprisingly high. With recent firming of prices of most industrial materials there seems to be little disposition by business and industry to reduce inventories. The sale of new homes, although somewhat slower than a year ago, still is satisfactory and we should have at least a million new starts of residential construction again this year.

According to a recent survey by SEC-Commerce, outlays by business for new plant and equipment in 1953 will total $27 billion. This is more than we had in 1952 and reflects some carry-over of projects whose completion was delayed by the steel strike of last year. American business as a whole has many well-thought-out plans for expansion extending over several years and these programs will be put into effect so long as we do not get a significant downturn in general business activity. Continued high volume of capital exepnditures will of course be a major factor in sustaining a high level of general business activity. Construction programs of state and local bodies should continue upward at least during the next year or so, as there is a pressing need in nearly every community for virtually all types of public improvements, including schools, streets, bridges, roads and utilities of all kinds.

High Level of Business Expected To Continue

On balance, therefore, there should be enough stimulating factors in the business picture to offset any weak spots that may develop in individual industries so that national income and business activity probably will continue at a high level for the balance of 1953 at least, and probably extend well into 1954. This means a big demand for long-term funds in the forms of new corporate issues, new municipal securities and mortgage loans on top of the new money that will need to be raised by the Federal Government to finance the anticipated deficit during the next fiscal year.

This is the economic background and forecast from which I wish to discuss the probable developments in the money market during the months ahead.

Many of us do not yet fully appreciate the tremendous revolution that has occurred in the money market since the Federal Reserve removed the pegs from government securities in March 1951. After nearly 20 years of controlled rates, few of us have had any real experience with operating in anything approaching a free money market.

Consequently it has taken time to adjust our thinking and to examine our lending policies in the light of such fundamentally changed conditions. Most of us had become so accustomed to operating in an easy money market we regarded such conditions as normal. The tightening of money rates which developed during 1951, 1952 and 1953 has been considered a temporary condition that might soon pass over and we would return to the days of a plentiful supply of funds at low rates.

This sort of thinking has dominated the minds not only of many institutional investors but also of most mortgage bankers. We have only to recall the programs of the mortgage bankers' meetings during the past two years to

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*An address by Mr. Edmiston before the Regional Meeting of the Mortgage Bankers Association, Kansas City, Mo., May 4, 1953.

A. W. De Garmo With Hayden, Miller Co.

Arthur W. De Garmo

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio — Arthur W. De Garmo has become associated with Hayden, Miller & Co., Union Commerce Building, members of the Midwest Stock Exchange. Mr. De Garmo was previously Trading Manager for the Cleveland office of Merrill Lynch, Pierce, Fenner & Beane.

With State Bond & Mtg.

(Special to THE FINANCIAL CHRONICLE)

NEW ULM, Minn. — Ralph B. Felsheim has become affiliated with State Bond & Mortgage Company, 26½ North Minnesota Street.

Two With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo. — Arthur L. Cady and Sue M. Mosier have joined the staff of Waddell & Reed, Inc., U. S. National Bank Building.

E. F. Hutton Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—James F. Dufy has become connected with E. F. Hutton & Company, 623 South Spring Street. He was previously with James Ebert & Co.

The Institutional Investors Mutual Fund, Inc.

By ALFRED C. MIDDLEBROOK*
Vice-President, East River Savings Bank, New York
Executive Vice-President, The Institutional Investors Mutual Fund, Inc.

Mr. Middlebrook describes the recently organized mutual investment company organized by the Savings Banks Association of the State of New York, and whose shares are held by its members. Gives history of company since incorporation on Oct. 29, 1952, and tells of portfolio supervision policy and advisory contract with Savings Bank Trust Company.

On this occasion a year ago, in commenting on the recently enacted equity legislation, I discussed the mutual investment company to be organized by the Association and to be owned by the savings banks of New York State—a company to be designed to provide a collective investment in a significantly diversified and professionally supervised group of outstanding common stocks. The processes of organization are frequently protracted, especially where new ground must be broken, and necessary clearances with public authorities often require a seemingly unjustified measure of time. However, recent economic developments have been such as to make an advantage of the enforced postponement of the inception of the company's operations.

A. C. Middlebrook

"Rome was not built in a day," and, I should think, in the perspective of history the circumstantially dictated delay in initiating operations will not be a factor of significance against the indefinite institutional life of either the company or the savings banks. Rather, it might be concluded without undue rationalization, the unexpected period of preoperational status might be viewed as an additional opportunity for further consideration of the basic purpose of the new company and the extent to which it could make a valuable contribution to the solution of savings bank investment problems in the highly specialized field of common stocks.

*An address by Mr. Middlebrook at the Mid-Year Meeting of the Savings Banks Association of the State of New York, New York City, April 23, 1953.

Stock investments constitute a new field for the savings banks of New York State and the record would seem to indicate that in general an appropriately conservative attitude has been adopted toward such investments with their admitted risks and peculiar characteristics. A new trail is being blazed in the organization and launching of a mutual investment company through which there will be made available to the savings banks a device for collective investment in junior equity securities. Not only will this company offer the obvious advantages of continuous informed supervision but it will enable the participating banks to avoid the numerous duties, responsibilities and administrative problems involved in direct ownership of common stocks.

It is probably worthy of observation that under legislation recently enacted in the State of New Jersey limited investment in equity securities by savings banks, including bank stocks, is authorized while the banks are also empowered to organize a mutual investment company for the purpose of joint investment in equity securities.

Essential Data Concerning IIMF—Initial Offering of Shares

Each savings bank in the state should now be in possession of the following formal documents pertaining to Institutional Investors Mutual Fund, Inc.: Certificate of Incorporation, By-laws as amended, Registration Statement filed with and approved by the Securities and Exchange Commission, copy of Findings and Opinion of the Commission in the matter of Institutional Investors Mutual Fund, Inc. and a copy of the contract executed with Savings Banks Trust Co. On the basis of this data (principally the Registration Statement which is being distributed in lieu of a prospectus in accordance with an exemption granted by the Commission) and a supplementary covering letter which has been mailed to all the banks, formal decisions will be made as to initial subscriptions to the shares of the investment company.

As set forth in a letter addressed to the savings banks under date of April 16, 1953, and signed by the President of Institutional Investors Mutual Fund Inc., the Directors have decided to accept subscriptions for the period May 1 to May 15 inclusive at the initial offering price of $1,000 per share as provided in the Registration Statement. It is pointed out in the letter that thereafter shares of the company will be sold at net asset value plus one-half of one per cent as more fully set forth in the Registration Statement.

Chronology of Principal Events Leading to Present Status of Investment Company

Following the enactment of Subdivision 26 of Section 235 of the Banking Law, which became effective as of April 14, 1952, steps were taken by the Association and its Committee on Savings Bank Investments to organize Institutional Investors Mutual Fund, Inc.

Initial suggestions as to incorporation included Delaware law, Article 12 of the New York Banking Law relating to investment companies, and the Stock Corporation Law of New York State. Upon reference of the matter to counsel certain disadvantages in organizing under Delaware law and under the New York Banking Law were discerned. With respect to Delaware law it was a question as to whether or not it would be possible to restrict the sale of stock to savings banks as required by the New York Banking Law. Incorporation under the latter would have involved a difficulty in that this statute was designed originally for the old form of mortgage companies and thus was not applicable to the operations of a modern open - end investment company.

It was the conclusion of counsel that these various problems would be minimized by incorporation under New York Stock Corporation Law. Furthermore, it was realized that were the company to be incorporated in New York State exemption from registration under the Securities Act of 1933 would be possible whereas this exemption would not be available under Delaware incorporation. For these and other reasons of general policy the decision was to incorporate under the New York Stock Corporation Law.

Drafts of Articles of Incorporation and By-laws were matters of extended discussion with the Banking Department and it was not until Oct. 20 that they received the final approval of the Superintendent. During the period prior to formal organization numerous conferences were held with officials of the Banking Department concerning the organization and operation of the investment company. Promptly following the Superintendent's approval of these matters the Certificate of Incorporation was put in final form and filed with the Secretary of State in Albany on Oct. 29.

On that day the first meeting of the Board of Directors was held in New York City. This Board, as you probably recall, was designated by a nominating committee selected by the President of this Association in accordance with a resolution of the Council of Administration. At the initial meeting of the Board necessary steps were taken to formalize the organization of the company. By-laws were adopted, officers were elected and an executive committee was created.

Reflecting a request of the Superintendent of Banks the Board adopted a policy with respect to limitation of investments in the shares of the company by large banks. Under this policy investments in the shares of the company by those banks which, under the statute, are authorized to hold common stocks to the extent of $10,000,000 or more will be limited for the present to a nominal amount, or a maximum of $500,000.

At this meeting the Board directed that counsel proceed with the necessary steps to secure registration with the Securities and Exchange Commission under the Investment Company Act of 1940 and to prepare a form of contract covering the employment of an investment adviser, transfer agent, registrar and custodian.

During the latter part of April, 1952, preliminary conferences had been held in Washington with the Securities and Exchange Commission and initial action had been taken toward registration of the company under the Investment Company Act. After formal organization a Notification of Registration, a Registration Statement, and an Application for Exemptions under the Investment Company Act of 1940 and the Regulations of the Commission were prepared. The objective of the latter application was to facilitate the operations of the company through relieving it of certain onerous and expensive requirements which, in the particular circumstances in which the company was to operate, were considered to be inappropriate and unnecessary. Concurrently the details of a contract covering the functions of Investment Adviser, Transfer Agent, Registrar and Custodian were completed.

At a meeting of the Board of Directors held on Dec. 19, 1952, it was decided to enter into a contract with Savings Banks Trust Company designating that Company as Investment Adviser, Transfer Agent, Registrar and Custodian, and the form of contract prepared by counsel was approved. At this meeting the various registration papers for filing with the SEC were also approved as was the Application for Exemptions under the Investment Company Act.

These documents were filed with the SEC on Jan. 2, 1953. Prior to filing further conferences were held in Washington with representatives of the Commission for the purpose of informing them more fully of the peculiar nature of the investment company under contemplation and of its functioning under New York law. Early in February a request was received from the SEC for further information relating principally to the investment laws of New York State and their relation to the operation of the company together with a request for a memorandum of counsel presenting their views concerning certain legal phases of the requested exemptions. The required information was furnished by amendment to the Registration Statement filed on Feb. 17 along with a formal memorandum of counsel.

Meanwhile details of the contract with Savings Banks Trust Company had been completed and on March 23 this contract was duly executed between the company and Savings Banks Trust Company. Conferences relating to various operational problems and details followed the execution of this contract.

Apparently due to a heavy congestion of work the SEC found it impracticable to issue a final order until April 14 although we had been informally advised through representatives of the Commission that favorable action on the Application for Exemptions would be recommended by the staff. On April 14 we were informed that the Commission's order had been entered granting all of the exemptions requested.

The Company could not have invited subscriptions to its shares prior to favorable action by the Commission on the requests for exemptions. This follows from the fact that exemption had been requested from registration under the Securities Act of 1933 and from the requirement of the statute that a prospectus accompany any solicitation of subscriptions for shares.

It might be interesting to note in passing a few of the more important statutory requirements from which the company is now exempt as a result of the Commission's action:

First, it is the statutory rule that before stock can be sold a registration statement under the Securities Act of 1933 must first be filed with and approved by the SEC. This registration differs materially from that now on file for our company with the Commission. It would entail compilation of much material, all of which would have to be factually correct and would require the subsequent filing of numerous reports. These requirements would have resulted in an additional burden and further expense for the company.

Second, the statute also requires that the issuance of stock be accompanied by a prospectus. This requirement would also impose an undue and unnecessary burden on the company without commensurate benefits to the participating savings banks. The granting of the requested exemption in this respect means that the company will be relieved of the expense involved in the preparation, printing and distribution of a prospectus.

Third, the statute prohibits a registered investment company from suspending the right of redemption or postponing the date of payment except as specified in the statute. We maintained that the best interests of the savings banks holding shares of the company would be served if, in consideration of the restricted nature of the ownership of the company's shares, certain additional protective provisions were introduced and if the directors were allowed some discretion with respect to the liquidation of assets necessary to meet redemptions under extraordinary conditions. An appropriately modified procedure concerning redemptions was incorporated in the By-laws and approved by the Commission.

Other applications for exemptions, such as exemption from compliance with the strict rules concerning proxies and those relating to common control as between the investment company and Savings Banks Trust Company, were also granted.

Portfolio Supervision—Advisory Contract

Successful operation in the specialized field of common stock investment requires the application of practices differing radically from those which are ordinarily associated with bonds and mortgage loans. The obviously greater exposure to risk necessitates a selectivity which, in addition to satisfactory income, will be particularly sensitive to the basic factors of growth, higher earning power or other favorable developments as effective market influences. Only by consistent adherence to such a policy can unavoidable losses be offset and, to the maximum extent possible, the integrity of the fund maintained.

Constructive investment in common stocks, although basically related to economic facts, principles and interpretations, remains to a considerable extent more of an art with its intangibles and imponderables than a science with its precisions and specifics due to the unavoidable intervention of various extrinsic factors

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What Investors Should Know About the Tobacco Industry

By HARRY L. HILYARD*
Treasurer, The American Tobacco Company

Mr. Hilyard, after giving brief history of Tobacco Industry, lists factors which determine its earnings over long-range period. Foresees good possibility of increasing earnings and dividends of tobacco companies, and calls attention to stability of the Tobacco Industry in good and bad times as an additional investment attraction.

We of The American Tobacco Company are deeply honored by your invitation to speak to you about the Tobacco Industry, and I personally am especially pleased to have this opportunity to repay in some measure the visits which many of you have made to my office in New York. Those visits have always been most interesting and enjoyable, and I hope you will come soon again.

Many of you know a lot about the tobacco business—that has been apparent from the discussions we have had when you have called on me in New York. So today I shall not go much into the background and fundamentals, except as it may help to make certain ideas clearer to you.

Brief History

The Tobacco Industry is one of the oldest in the United States, and one which has exhibited remarkably steady growth. Over the years the consumption of tobacco products has increased faster than the growth in population, and even during periods of business depression there has been little or no decline in sales volume. It has, however, gone through a certain amount of evolution. In the past, chewing tobacco, smoking tobacco and cigars were the most popular forms in which tobacco was consumed. In recent years cigarettes have outdistanced other forms, and today about 75% of the leaf tobacco used in this country is in the form of cigarettes. Today tobacco is practically synonymous with cigarettes, and the tobacco business is, in effect, the cigarette business.

Cigarettes constitute about 95% of the sales of The American Tobacco Company, with cigars and tobaccos making up the balance.

Size of Industry

It is a business whose volume runs into substantial figures. Last year some 435 billion cigarettes were made in the United States, of which about 395 billion were consumed here. That is a lot of cigarettes—about 3,719 per year, or one-half pack per day, for every person over 15 years of age in the United States and the Armed Services overseas.

How many cigarettes would you guess our own company alone makes each working day? Well, the figure is over 500 million. Last year our sales were $1,065,000,000—the first time in the history of the industry that the sales of a tobacco company exceeded a billion dollars.

The tobacco companies have always been somewhat reticent about disclosing the number of cigarettes manufactured by brands; but Harry Wootten's estimates in "Printers Ink" Magazine in January each year are generally considered to be fairly accurate.

Earnings

Earnings in the industry have not kept pace with the steadily increasing sales volume in recent years, due on the one hand to the higher cost of leaf resulting from the greater demand and to the Government's policy of restrictive controls which have trebled the cost of leaf tobacco since 1940; and on the other hand to the refusal until recently of the OPS to allow increases in the prices of cigarettes. Under these conditions the industry has exhibited remarkable stamina. As a matter of fact, our own company showed slightly increased earnings last year, but this was due to a greater Excess Profits Tax credit, and consequently lower tax liability.

Earnings over the long range depend principally on:

1. Cost of Leaf and Labor,
2. Sales Supremacy due to:
   a. Quality of Product.
   b. Outstanding and Diversified Brands.
   c. Effectiveness of Advertising.
3. Adequacy of Selling Price.
4. Impact of Taxes.
5. Soundness of Financial Program.
6. Excellence of Management.

Cost of Leaf and Labor

The present popular type of cigarette, part flue-cured, part Burley and part Turkish and Maryland, was developed about 40 years ago. The cost of leaf is one of the most important factors in the business, since leaf comprises about three-quarters of the cost of a cigarette, exclusive of revenue stamps.

During the so-called New Deal and Fair Deal administrations, the Tobacco Industry was subjected to restrictive controls which have greatly increased the cost of flue-cured and Burley tobaccos. These controls have taken the form of acreage restrictions at the farm and price support at the auction markets. Last season support prices for the crop ranged from 16¢ to 74¢ over some 120 grades of flue-cured, and a similar number of grades of Burley tobacco, and averaged about 50¢ for both types. These support prices have approximately trebled since their inception in 1940.

As a result of the Government's program, the prices at which the flue-cured crop actually sold at auction last season averaged 50.4¢ and Burley 50.2¢. While actual leaf prices as well as support prices have trebled since 1940, they have fairly well leveled out during the past three years. Last season's average prices for the crop were about 2¢ per pound lower than the previous year on flue-cured, and about 1¢ lower on Burley. Our own prices naturally average substantially higher than those for the crop as a whole, since we buy the higher grades.

In calculating the amount of leaf to buy each season, our own company sticks very closely to a mathematical formula, which undertakes to insure that an adequate supply of leaf will be on hand at all times, even in the event of a partial crop failure the subsequent year, and at the same time allow for proper ageing of the leaf. We do not speculate, but we do buy somewhat more heavily in seasons when the leaf crop is of extra good quality, and on the other hand, less in a season if the quality is below average.

The cigarette industry, as indicated by published balance sheets, usually has on hand leaf tobacco sufficient for sales for about two years. The investment in inventories is, as I am sure you are all aware, the preponderant portion of a tobacco company's total book assets.

Leaf inventories are carried on the books at average cost. New leaf purchases are taken in at actual cost and averaged with inventory values already there. Leaf removed from inventories for manufacture is taken out at the current average, and that month's cost of manufacture is charged accordingly. This is a very good method for the Tobacco Industry since, in spite of variation over the years in the cost of leaf tobacco, it tends to iron out peaks and dips in earnings.

The labor cost in our company has more than doubled since 1940, but due to the high degree of mechanization the labor cost per dollar of sales compares favorably with other industries. However, the towns and cities where our cigarette factories are located are among the most prosperous in the South, as a result of the steady work and good pay which our workers receive.

Quality of Product

The American Tobacco Company was the pioneer among tobacco manufacturers in establishing a comprehensive research program; and its research laboratory, the first of its kind in the world, and in our opinion the best-equipped and best-staffed in the industry, modern in every respect, is devoted exclusively to tobacco research and control.

During the leaf-growing season, at our research laboratory, samples of leaf tobacco are brought in from tobacco fields all through the South and their physical and chemical characteristics are tested. These tests give our buyers information as to what to expect from the various growing sections as to the quality, so our buyers with long experience are guided by our research and are able to purchase the best quality of tobacco desired for our cigarettes.

To make a quality product, we must have quality leaf, so our company, some years back, established a department headed by an agricultural consultant. This man, an expert in tobacco who had been connected with the Agriculture Department in Washington for many years, is well known among the growers, dealers, and farm bureaus; and in this position developed a close contact between our company, various farm organizations, Federal and State experimental stations. Through our own research and the cooperation of these various agencies, new strains of leaf tobacco were developed, proper fertilization was gone into, and increased study was given to the damage, from various causes, to which tobacco plants, like all plant life, are subject.

To further this program in the interest of the farmer and the industry, the company started an advertising campaign on these various subjects to help enlist interest in the growing of better leaf. These ads are still being used in farm newspapers and magazines and regular newspapers in the tobacco sections. The program has resulted in extremely favorable comment from growers, cooperatives and agricultural colleges. It might be interesting to note that this advertising carries the name of The American Tobacco Company and does not exploit any particular brand. For this campaign, our company won the top agricultural award—a silver anvil trophy given by The American Public Relations Association for the best public relations advertising campaign last year.

Not only is great care taken in the selection of leaf tobacco, but this same care is carried through the entire manufacture of our cigarettes. One of the controls that is so important is moisture. From the time the original leaf enters our stemming plants, throughout prefabrication and the fabrication, definite controls are kept at each stage as to moisture content. To have your moisture proper, means proper air-flow, which gives you proper draw and, naturally, the proper taste.

Our manufacturing people religiously believe that "Quality of Product Is Essential to Continuing Success." I am sure many of you have seen these plaques which hang in every office and factory throughout the company. In a feature article about our company in "Forbes" Magazine last October, the editor who wrote the article had one criticism. It was what he called a "fetish of quality" on the part of our manufacturing department. Our manufacturing officials were not annoyed at this criticism. Quality is their guiding principle.

Outstanding and Diversified Brands

Harry Wootten's article in "Printers Ink" Magazine for January, 1953, lists the leading brands of cigarettes, and his estimate of the sales of each. One thing I like about our own company is the fact that we have three out of the seven most popular cigarette brands, "Lucky Strike," "Pall Mall" and "Herbert Tareyton."

Incidentally, we have in addition, three great cigar brands, "La Corona," "Antonio y Cleopatra" and "Roi-Tan," and diversified smoking tobacco brands to appeal to different types of smokers, the two most popular of which are "Half & Half" and "Bull Durham," so that each of our stockholders has the advantage of having a major stake in virtually the entire field of tobacco products. He has an interest in a group of brands, which represents the best diversification of sales in the industry.

Effectiveness of Advertising

Advertising, as in many if not most industries, has been one of the chief means to create and expand the demand which has made mass production possible. Advertising is a principal factor in achieving the great volume of cigarette sales, without which the cost of manufacturing cigarettes, and their price to the consumer, would necessarily be much higher than they are today.

Considerable misinformation exists as to the cost of cigarette advertising. The American Tobacco Company's expenditures, while substantial in total, are small when applied to the individual unit. In spite of its comprehensive nature, our company's cigarette advertising costs only about one-third of a cent per package of 20 cigarettes.

Incidentally you may be interested to know that the substantial growth experienced in recent years by our king-size "Pall Mall" and "Herbert Tareyton" brands has come about with a very conservative expenditure for advertising.

Adequacy of Selling Price for Cigarettes

The cigarette industry has suffered in recent years from the far too-low price at which cigarettes have been sold.

That was at least partially corrected toward the end of February when, following Government decontrol, cigarette manufacturers raised prices about 5%. Even today the manufacturer of the standard brands receives only about 8¢ per package of 20 cigarettes, exclusive of excise tax, an increase since 1937 of 57%, while the cost of leaf has trebled since 1940; and, as you know, labor, transportation and practically everything else have gone up considerably.

Cigarette selling prices ought to be fair and reasonable to the consumer, and yet high enough so that with good management there are sufficient earnings to amortize some of the long-term debt which the industry has incurred in recent years and, in addition, pay dividends that yield a fair return to stockholders and are high enough to attract new capital when required.

In England, where, however, conditions are somewhat different, a package of 20 regular-size cigarettes sells for three shillings and seven pence. At the current rate of exchange this is equivalent to about 50¢ a pack in American money. Before the English pound was devaluated in 1949 the equivalent was even higher, I believe about 70¢ a pack in American money. Such prices, which are the result of the very high British duty, have, however, undoubtedly held down the increase in per capita consumption, the figure being now about 40% less than in the United States.

Extent of Taxes

Cigarettes are one of the most heavily taxed consumer products. The Federal excise tax on cigarettes, which brings into the Federal Treasury more than 1½ billion dollars a year, represents one-half the price the manufacturer charges for his product. Or, stated in another way, the excise tax equals the amount the manufacturer receives for the product exclusive of the tax. Furthermore, all but a few states and many cities and towns levy an additional tax, one state levying a tax of 8¢ per pack, which alone is equal to the price charged by the manufacturer for the product, exclusive of the Federal excise tax. In Boston, a package of cigarettes for which you pay 25¢ at retail carries a Federal excise tax of 8¢ and the Massachusetts State tax of 5¢, a total of 13¢; whereas all that the manufacturer receives to cover everything from leaf to finished package is 8¢. The other 4¢ is split between the jobber and the retailer.

To purchase the Federal excise stamp which is to be affixed to the cigarette package costs our company over $2,000,000 in cash each working day, and by the time we have shipped the cigarettes to our customers and gotten paid for them, we have tied up close to $60,000,000 in Federal excise stamps. Perhaps some day some arrangement can be worked out acceptable to the Government so that we are not required to meet a continuing prepayment to the Government of $60,000,000 pending recovery from customers.

Soundness of Financial Program

Within a few years after the inauguration of Government control of tobacco crops and price supports for leaf tobacco, the industry commenced borrowing money on short-term loans from banks, which were later converted into long-term debt or equity capital. There has been a consistent increase in the amount of money invested in the cigarette industry as a result of both the increasing unit volume of business—more than doubled since 1940—and the constantly increasing costs—mainly higher cost of leaf tobacco. It has been a problem to determine how much of the required new money should be raised by issuing long-term debt obligations, and how much by obtaining additional equity capital.

A rough rule of thumb used for many years by banks in extending large amounts of credit, is that for a manufacturing business the liabilities should not ordinarily exceed the net worth, although the rule is subject to a great deal of modification depending on the nature of the product. If, however, the borrower is not a manufacturer but a commodity dealer—say a Boston wool merchant—then it is usually considered safe to run the debt up well above net worth, the difference being chiefly that the commodity dealer does not have a large amount of capital tied up in bricks and mortar, most of his assets consisting of commodities.

Now I believe this—that a large tobacco company, especially one with good management and diversified brands, is as much in the category of a commodity enter-

*An address by Mr. Hilyard before the Boston Security Analysts Society, Boston, Mass., April 27 1953.

prise as it is a manufacturer. Take our own company—sure, we have factories and bricks and mortar—they are carried in our balance sheet net of depreciation at about 44 million dollars. But that is relatively insignificant compared with the approximately 600 million dollars we have invested in leaf tobacco. We are as much a commodity enterprise as we are a manufacturer, and in my opinion entitled to borrow accordingly. At the same time, while a cigarette manufacturer can safely support a debt larger than most manufacturing businesses, he should be forehanded in his arrangements for any new money which may be required, and not wait until economic conditions make needed financing difficult or impossible.

From the beginning of 1947, in addition to funding into long-term debentures substantial amounts of current bank borrowings, our company has added 87 million dollars to net worth from earnings in excess of dividends, and during that period we have raised 104 million dollars through the issuance of additional common stock, a total of 191 million dollars of new money, which more than doubles our net worth as it existed at the beginning of 1947. Our present financial position is very strong, with working capital adequate for the needs of the foreseeable future, and in the absence of unusual developments no new financing is contemplated.

Excellence of Management

It is of course an axiom that a business cannot prosper for long unless the men who manage it not only have individual ability, but also work hard and pull together. So far as our own company is concerned, there has never been a greater degree of intelligent effort, creative initiative and better team work than at the present time. I think our team is outstanding in these important respects.

Outlook

Cost of Leaf—What leaf tobacco will cost this year no one can say at this time, but I may point out that the Department of Agriculture the latter part of March announced that minimum Government support prices the coming season will be 47.9¢ for flue-cured, compared with 50.6¢ in 1952 and 50.7¢ in 1951; and for Burley 46.6¢ compared with 49.5¢ in 1952 and 49.8¢ in 1951. These are minimum support prices and may be increased by the Department of Agriculture up until July 1 for flue-cured and up until Oct. 1 for Burley.

Sales—My guess on sales of cigarettes is that they will continue to gain about 4% each year for the next few years, or about twice the rate of gain in population. Per capita consumption continues to increase, as well as population, and has nearly doubled since 1940.

King-Size Cigarettes—Analysts such as yourselves have recently shown great interest in the king-size cigarette, and perhaps that is natural since king-size brands are reported by Mr. Wootten to have sold 77 billion cigarettes last year, after starting from scratch 12 years or so ago. Mr. Wootten further states that sales of our two king-size brands, "Pall Mall" and "Herbert Tareyton," in 1952 constituted 75% of the total king-size market.

It seems to me there is a great deal of misconception with respect to the reason for the increased popular demand for king-size cigarettes. King-size cigarettes have been on the market for 12 years or more, and with the exception of the two brands made by our company, have had no great success. It is true — the longer length travels the smoke further, filters the smoke and makes it mild, but in my opinion the great popularity of "Pall Mall" and "Herbert Tareyton" is due not only to their greater length but to their exceptionally fine quality, and by that I mean quality of leaf and excellence of manufacture. Neither brand has been extensively advertised nor had any great amount of money spent on it. Naturally their popularity has attracted imitators. But most of the imitators seem to be imitating simply the length of these two brands, and not their most important characteristic which is their outstanding quality.

Filter-Tip Cigarettes—There is is also among analysts today considerable interest in the future of the filter-tip cigarette. Despite the fact that filter-tip cigarettes have been on the market for many years, last year they comprised only a little over 1% of the domestic cigarette market. This, of course, is very small, although at the moment it seems to be growing. However, what the ultimate future is of the filter-tip, I am not so sure.

Our British subsidiary and other cigarette companies in England have made an effort in the past few years to get smokers in England to smoke filter-tip cigarettes, but without any success to speak of. Of course I would like to say this—and emphasize it—if the smokers of this country indicate sometime in the future an overwhelming desire for filter-tip cigarettes, our company will arrange very promptly to make them too; and I assure you in advance, they will be of good quality.

Economy Cigarettes—The Ways and Means Committee of the House of Representatives has been holding hearings on the Simpson Bill, which would create an excise tax differential in favor of so-called "economy" cigarettes. The Bill would create a special rate of 5.8¢ per pack for cigarettes manufactured to retail at not more than 13¢ per pack, including Federal tax but not State tax.

This movement, which has been on foot for many years, is sponsored by a few manufacturers, including particularly a British-owned tobacco-manufacturing concern, who expect to be benefited thereby. Economy or cheap cigarettes now manufactured by this group are said by good authority to account for less than 1% of the total cigarette production in the United States in recent years.

Such a tax concession, or in effect Government subsidy, is of extremely doubtful wisdom. It is obvious that any such tax advantage, if it embodies any substantial benefit for economy brand manufacturers, could be taken up by the producers of the standard brands. Tobacco growers assert that it would cause them losses by reducing the demand for higher grade leaf tobacco, and the Treasury Department states that it would result in substantial losses in excise taxes to the Federal Government.

Excess Profits Tax—It is very difficult to answer questions about our Excess Profits Tax situation. There are four companies included in our consolidated financial statement. Each files a separate Excess Profits Tax return, incidentally on an average earnings basis. Since we do not file a consolidated Excess Profits Tax return, there is no such thing as a consolidated Excess Profits Tax credit. Last year only one of the four companies had a provision for Excess Profits Tax. The parent company had a credit carry-back, resulting in a claim. This was due to our financing in the early part of 1952 which resulted in an increase in the Excess Profits Tax credit. In 1952 the net result of the various Excess Profits Tax returns filed for the companies in the consolidation was that an Excess Profits Tax applied on all earnings in excess of $4.29 per common share. We cannot say what the situation will be for 1953 until after the close of the year.

Earnings and Dividends—Although the recent increase in the price of cigarettes was small percentagewise, it does have a substantial effect when applied to the large volume of sales. It would mean, when applied to the 1952 figures of our company, a material increase in earnings before taxes. How much of this increase it may be possible to bring down to net earnings this year depends on what happens to sales volume, costs, and taxes.

Assuming expiration of E. P. T. on June 30, as under the present tax law, or, to state it more accurately, a reduction of the rate to approximately 15% for 1953, and no other change from our 1952 sales volume or costs, the effect of the higher cigarette price would be to increase earnings for 1953 to a little better than $7.25 per share compared with last year's $4.79.

Assuming continuation of E.P.T. throughout the year at 30%, and no other change from our 1952 sales volume or costs, the effect of the higher cigarette price would be to increase earnings for 1953 to somewhat more than $6.25 per share.

Let me caution you, in connection with these estimates, that changes in sales volume or costs or some different tax setup from those mentioned, will of course have a different effect.

With the prospect of increased sales, stable leaf prices, the effect of the recent cigarette price increase and lower taxes, the outlook for better earnings is exceedingly bright.

Along with the possibility of better earnings comes the possibility of higher dividends. However, with the increasing volume of business and the increasing amount of inventories necessary to support it, the tendency will be to reserve a reasonable portion of the earnings for the required additional working capital, instead of paying them out in the form of dividends. Our record on dividends, however, is good. The dividend we paid in March was the 190th consecutive dividend paid on our common stock since the incorporation of the company in 1904. While the amount of the dividends paid on common stock during these years has varied because of variations in earnings, dividends on the preferred and common stocks have been paid every year since the incorporation of the company. We think this is an outstanding record, and one that is especially important to the stockholders who depend on the regularity of their investment income.

Investment Attraction

For more than a decade the economy of the country has been in the boom phase of the business cycle, resulting mainly from the war and from political developments. To those who feel that the cycle may have about run its course and are looking for an industry with defensive characteristics, as well as the prospects I have previously described, perhaps the Tobacco Industry offers real attraction.

Pittsburgh Bond Club To Hold Spring Outing

PITTSBURGH, Pa.—The Bond Club of Pittsburgh will hold its Annual Spring Outing Friday, May 15, 1953.

George H. Kingsley, of Singer, Deane & Scribner, is General Chairman for the event, and will be assisted by Robert Stewart, of Moore, Leonard & Lynch, as Vice-Chairman.

Bankers Underwrite Lone Star Gas Offer

Lone Star Gas Co. is offering to holders of its common stock, rights to subscribe for 183,300 shares of 4.75% cumulative convertible preferred stock, $100 par value, at the rate of one share for each 30 shares of common stock held of record May 13, 1953, at a subscription price of $100 per share. The offer will expire at 3:30 p.m. (EDT) on May 27, 1953.

The stock is convertible into common stock at $26.25 to and including June 30, 1963, at $29 thereafter to and including June 30, 1968, and at $32 thereafter, subject to adjustment. Dividends will accrue from May 27, 1953.

The First Boston Corp. heads a group of underwriters which has agreed to purchase the unsubscribed shares.

Proceeds from the sale will be added to working capital for construction, the program for which calls for expenditures of approximately $28,000,000 in 1953 and $20,000,000 in 1954.

Lone Star Gas Co. transports and distributes natural gas to more than 635,000 consumers in parts of Texas and Oklahoma. The company's subsidiary, Lone Star Producing Co., owns and operates oil and gas leases, wells and related equipment.

Total consolidated operating revenues for the year ended Feb. 28, 1953, amounted to $66,542,704 and net income for the period was $9,935,358.

Utility Operating Income And Business Recession

By HERBERT J. FLAGG*
Executive Officer,
New Jersey Board of Public Utility Commissioners

New Jersey Public Utility Commission official stresses significance of proper rate fixing in promoting stability of income of utility concerns. Points out any material decrease in service to industrial consumers means a lower operating income from this service of a vastly greater percentage than the percent reduction in operating revenue. Finds most utility concerns have been increasing their industrial load, and will suffer heavier net income losses from a recession than in previous periods. Suggests an index might be developed for use in comparisons of "goodness" or quality of net income as between two or more utility situations.

About 16 years ago a member of a public utility commission in an Eastern state wrote to a commissioner in a neighboring state suggesting, in effect, that electric rates should be "postalized." That means that every customer, regardless of his use, should be charged the same price per kilowatt hour. It is like proposing that Macy's should divide its dollars of annual sales by the weight of the goods sold in pounds in order to derive a figure which would be the price per pound for either a silk dress or a sack of potatoes. Just as the commodities sold by a department store have differing characteristics of quality, use and cost, so do the kilowatts and the kilowatt-hours sold by an electric utility. It would be just as absurd to charge the same price per unit of consumption for electricity as it would be to charge the same price per pound for merchandise regardless of its nature.

Herbert J. Flagg

It needs no argument to establish the proposition that "postalized" rates would utterly disregard the costs of handling each customer's account and would ignore (1) the nature of the use the customer makes of the service, (2) the value of the service to him and (3) his ability to pay for the service. These are basic concepts that we commonly assume are taken into consideration in fixing electric rates. Whether such consideration is always based on adequate knowledge of the facts in a given situation may be questioned.

In this connection Mr. C. Maynard Turner, Vice-President of Cincinnati Gas and Electric Company, in charge of rates and research for that company, is recently reported by "Electrical World"[1] to have said:

"No electric company in the country knows enough about the manner in which its customers make use of the electric energy they purchase."

He might truly have added:

"Nor do most of them have sufficient detailed knowledge of the cost to serve their customers, to be able to design rate patterns that realistically conform to cost patterns."

This unveils the subject of "cost determination" or "cost analysis" which is a procedure that I have advocated for many years. It is the most effective technique known for developing information that is indispensable in the fixing of utility rates if management is to be assured that such rates are not unduly discriminatory as between classes of customers and as between customers within a class. I will not discuss this subject further here, but in my remarks to follow you will note many allusions to it.

Now you will ask me "What does this technical aspect of utility rate making have to do with appraising the merit of utility securities?" I think I can show you that it has a great deal to do with it.

I assume that you are interested primarily in the amount of utility operating income that becomes available for dividends and surplus, so it follows that you should also be interested in anything that can affect the stability of that income. Stability of income in the last analysis is a function of pricing. The more closely the price pattern follows the cost pattern the more stable the income is likely to be. So long as there is no significant change in either the demand for the product at current prices, or the cost of producing it at current level of costs, then the net income, whatever it is, will remain stable. But if significant changes do take place there is bound to be an amplified effect on net income.

We know that the amount we call utility operating income is the composite result of selling service to several classes of customers: residential, commercial, industrial power, etc., and there are subclasses in several of these categories. We know that the contribution of each class to operating income is seldom proportional to volume as measured by either operating revenues or sales in kilowatt-hours. Consequently, the stability of operating income cannot soundly be measured by the trend of either operating revenue or kilowatt-hour sales.

We know from experience and rational analysis that these several classes of service are vulnerable to changes from boom to depression in unequal degrees. For example, the conditions that might bring about a striking decline in the kilowatt-hour sales in the large light and power category would have only a slight effect on the consumption of customers served under residential rates.

Rates Must Be Rational and Realistic

It follows that the pricing policy of a public utility company has a controlling influence on the stability of its operating income. Rates must be rational and realistic: First with respect to the generation of revenue from each of the several classes of customers in proper relation to the overall cost to serve each class; and, second, with respect to balancing the rate structure for each class so that there will be adequate recoupment for customer costs, commodity costs and demand costs.

Does it not appear that with a few exceptions, utility managements seem to be bound by tradition or precedent and tend complacently to follow the line of least resistance so far as patterns of prices go? They do not see the importance of pricing their service so as to produce the highest possible quality of net income.

As an example of following tradition in disregard of the cost evidence that is readily available I may mention the "traditional" initial charge of $1 we almost universally find in residential rate schedules today. That got started many years ago when customer costs were about one-third to one-half what they are today. Sometimes the $1 charge did not carry any commodity with it. More often, and typically, it covered a few kilowatt-hours of electricity or a few hundred cubic feet of gas. Now if $1 was a reasonable initial charge in the 1930's, and I believe it was if it didn't carry too many units of commodity, how reasonable is it today when labor costs have doubled? To ask the question is to answer it. And the conclusion follows that if the present overall utility return is satisfactory then the deficiency of recovery of customer and demand costs in the early blocks of a particular block type rate imposes a revenue burden on other blocks of the rate or on other customers.

Not many utilities have had the foresight to do what the Taunton, Mass., municipal electric plant did. Of all utility enterprises those operated by municipalities are supposed to be most susceptible to political considerations. However, this municipal plant courageously increased the price for the first 20 kwhr. of residential use from $1 to $1.77. There was no adverse public reaction, then or since, probably because the justification for the increase was thoroughly explained to the customers beforehand.

In your work it seems to me that you would want to classify utility sales as between those that would be relatively stable under depression conditions and those that are vulnerable. Then in a given utility situation you would want to consider if the rate schedules applicable to stable sales are encouraging the development of new or incremental load that does not pay its way. Similarly, you would want to consider if the rate schedules applicable to vulnerable sales are designed so as to reasonably recover both demand and commodity costs. As I will show, only by having information of this nature can you reasonably forecast the probable behavior of operating income and of net income if we enter a period of recession.

What Television Is Doing for Electric Companies

As an example of what I have in mind let us consider what television is doing to the operating income derived from the residential load. I will approach the subject from the point of view of the question—"Is the television load a desirable one under present rate schedules?"

One thing about this load is certain: the electric power industry doesn't have to go out to promote it. Manufacturers and dealers are doing a notable job in that respect. And what have been the results to the present? Last October it was reported in the technical and financial papers that the electric utility operating revenues directly traceable to television receivers amount to $200 million per year. This is about twice the amount estimated by the Edison Electric Institute rate committee. Another authority asserts that such revenue does not exceed $70 million a year.

Notwithstanding the wide variations in estimates of revenue, the essential data for consideration of the question appear to be reasonably well established. In this discussion simplicity requires the use of some imprecise terms such as kilowatts instead of kilovolt-amperes as the unit of measurement of demand.

The average connected load per television set including halo and supplementary lighting is estimated to be 394 watts. The winter coincidence factor at the critical 5 to 6 p.m. period, on the day of the system peak in late December is 0.75, from which it is calculated that the diversified demand per TV set at the meters is 251 watts. Giving the TV set credit for the one radio it displaces which has a coincidental demand at 5 to 6 p.m. of 35 watts, the net demand per TV set at the meter becomes 216 watts. If we assume that there is a drop of 16% between the generators and the load the net diversified demand per set at the generator becomes 251 watts.

Now what is the consumption of this load? The article just mentioned is basis for a conclusion that in one midwestern utility situation the average annual consumption per TV set is 250 kwhr. Another authority has suggested that the net annual consumption is 228 kwhr. But let us use the larger quantity because it will give us a higher figure for revenue. It may be assumed that the national average incremental revenue per kilowatt hour of consumption attributable to television does not exceed 2.5 cents. It is probably nearer 2 cents. Using the higher figure we compute that the average annual revenue per TV set is $6.25. This equates to an average annual operating revenue of $24.80 per kilowatt of diversified demand at the generator. This may be compared with the present revenue from the residential class of $80-$100 per kilowatt-year. Even during the late lamented depression the residential class was producing operating revenue of $120-$140 per kilowatt-year of diversified residential demand.

From the figures I have used the annual load factor of the TV load is computed to be 13.2%. It is probably not more than 12%. These figures compare with the recognized annual load factor of the residential class in the years just before TV of 35% to 40%. Do you see the dilution that is taking place?

At this point we should consider what it costs the industry to serve this load that produces a revenue of only $6.25 per year. A nominal estimate of additional plant investment responsibility is $64 for each TV set. Five percent rate of return on this investment would be $3.20. But it takes about $1.70 of operating revenue to produce $1 of operating income after taxes, allowable deductions, etc. So the first $5.44 of the TV revenue must be earmarked for a 5 % return on the $64 of additional investment responsibility. That leaves only 81 cents to offset the costs of operation and maintenance which are estimated to aggregate more than $7.

The significance of the trend indicated by these figures must be apparent. Emphasis to this significance is given by figures as to the decline in the rate of return derived by a power company in a Northeastern state from sales to its residence customers. In 1934 the rate of return was 9%. In 1943 this had declined to 2.9% in the face of an increase in average annual revenue per customer from $34 to $46.50 and notwithstanding—or perhaps because of—an increase in average consumption from 450 kwhr. to 1,380 kwhr. per year. We should note and consider the significance of Mr. Walker Cisler's recent statement[2] to the effect that in the depression year of 1935 the revenue dollar of the Detroit Edison Company yielded 19.5 cents of net income, but in the 12 months ended June 30, 1952 the corresponding figure was 9.4 cents—less than one-half. Of course Mr. Cisler gave overall figures and they reflect the influence of changed characteristics of use in industrial as well as in residential and other classes.

What conclusion do we draw from this? It seems to me that these figures demonstrate that striking changes both in investment responsibility and in class characteristics of use are taking place, which result in changes in the cost to serve, which changes are not being aedquately recognized by contemporaneous changes in the rate structures and in the prices for the service. It is my belief that the time has come for utility management, in the interest of both customers and the industry, to meet these new conditions by establishing realistic load factor type rates for residence service. In the alternative, a partial solution would be to increase the initial charge and the price for the first one or two blocks of the residential rate schedule so as to more adequately compensate for the sharply increased customer and demand costs.

Perhaps I should explain why I have dwelt at length on a relatively small portion of the residential load. My purpose is to emphasize to you, who are trained in a highly specialized field, that just as you must employ some analysis techniques in appraising the present and prospective worth of utility securities so should you expect proper analysis techniques to be used by those who design utility rate schedules. It would seem that one of the measures of stability of net income to be considered by you is the effectiveness of the utility rate analyst in designing rate schedules that adequately recover cost to serve and at the same time promote the acquisition of compensatory load. Whether this is being done is one of the things you can reasonably ask a utility to disclose when it comes to you to discuss a security issue.

Industrial Service Load

Now let us take as a subject for discussion the service to industrial power customers. This service is usually charged for on a "load factor" rate. In other words, the total charge is composed of (1) a charge for demand which is proportional to kilowatts and (2) a charge for energy, which is proportional to kilowatt-hours. Let us assume that the demand rate is too low in relation to demonstrable demand cost and that the energy rate is too high in relation to commodity cost, but for the present the combination of the two charges produces a satisfactory contribution to the utility's operating income.

I believe that experience supports the conclusion that if this country has a recession the portion of electricity sales that will be first and most drastically affected will be the sales to the industrial power class. And experience also shows that while kilowatt-hour sales will go down, the kilowatt demand may even go up. So what is the result? The insufficient revenue from the under-priced demand portion of the service remains the same, but the more than sufficient revenue from the over-priced commodity portion may be cut down by one-third or more. On these assumptions as to relation of price to cost it is obvious that the operating income from this class will be

*From an address by Mr. Flagg before the New York Society of Security Analysts, New York City, April 1, 1953. The views expressed in this paper are those of Mr. Flagg and do not necessarily represent the views of any member of the Board of Public Utility Commissioners of New Jersey.

1 Electrical World, March 2, 1953, p. 33.

2 Paper delivered before the National Coal Association, New York, Nov. 11, 1952. "An Electric Power System Executive Looks at Coal."

reduced by a vastly greater percentage than the percent reduction in the operating revenue. Since in these days this class of service makes a relatively large contribution to utility operating income it follows that any material decrease in such contribution will have a serious effect when carried down to net income.

Sales Vulnerable to Shifts in Business

I have already suggested that the operating income from the sale of electric energy comes in part from sales not greatly affected by shifts in the economic wind and in part from sales that are vulnerable to such shifts — where consumption fluctuates widely up or down with the economic barometer.

It has been estimated that in 1930 the operating income of the electric power industry was about 65% from stable sales and 35% from vulnerable sales. When the depression was deepest about 50% of the operating income from vulnerable sales had been lost, but as I will show later the overall operating income that had been the equivalent of an 8% return on investment in 1930 was only reduced to about 7% in 1934 and the industry acquired a reputation for being depression proof.

It is reasonable to assume that today the percentges are reversed and not less than 65% of operating income is derived from vulnerable sales. If a recession comes along in a few years and the industry loses only 40% of the operating income from vulnerable sales the rate of return on investment will drop from a present level of 6% to 3.7%.

You might say that there is not a great deal of difference between the 82.5% in one case and the 74.0% in the other case. But the really significant point is that in 1934 the 82.5% had to support only 96% of the rate base that was supported in 1930, whereas, despite possible retirements, the rate base to be supported in 195X by the operating income represented by 74.0% will be 20 to 30% greater than in 1952.

The thought has occurred to me, as perhaps it has to you, that an index might be developed that would serve as a basis of comparison of "goodness" or quality of net income as between two or more utility situations.

In closing let me express the hope that I have been able to give you some thoughts that will be useful to you in arriving at your own answer to the question I posed earlier. Not all of you will agree with my ideas on this subject, and indeed I anticipate that some of my colleagues in regulation will disagree with me. Regardless of that, it has been my aim to provoke some earnest thinking on the matters that I have discussed.

Lacy Kux Joins American Nile

Lacy Kux, until April 30, partner of Sutro Bros. & Co., members of the New York Stock Exchange, has joined the organization of the American Nile Corporation in New York, 350 Fifth Avenue, as manager of its Foreign Department.

Mr. Kux, internationally well-known specialist of foreign exchange operations, will co-ordinate and extend the activities of the American Nile Corporation and its affiliates in Paris, Geneva, Caracas and Montreal, to the field of commercial clearing currencies.

St. Julien Childs Opens

CHARLESTON, S. C. — St. Julien Childs is engaging in the securities business from offices at 21 Broad Street.

Public Utility Securities

By OWEN ELY

Natural Gas for the Pacific Northwest

Mr. Henry Gellert, President of Seattle Gas Company, recently addressed the New York Society of Security Analysts on the subject of "The Natural Gas Project for the Pacific Northwest." There has been considerable competition between several American groups and the Canadian interests to supply gas for this area, which is the one remaining important territory (excepting for a portion of New England) which is not yet served with natural gas.

Mr. Gellert is opposed to the plan of Westcoast Transmission Company to build a line to bring gas from Canada for this area. He pointed out that the expenditure of over a billion dollars might be involved during the 20 years in which a pipeline would be financed. This would include $150 million each for the pipeline and gathering system, for customer conversion cost, and for equipment sold to customers, or a total of $450 million. The estimated 2-3 trillion cublic feet of gas which would be consumed during the period would cost (at 35 cents per mcf) between $700 million and $1,050 million. Of all these sums $800 million to $1,150 million of American money would be spent either in Canada or in the United States, depending on the source of gas supply.

Formerly Mr. Gellert was convinced that the Peace River area in Canada had insufficient gas to supply the proper reserves, that construction of the pipeline would be difficult, and that Canadian laws would "make impossible any assurance of continuous and adequate gas supply, or the policing of the price of gas to us by the Federal Power Commission." However, while a "frantic drilling program" in the Peace River area has extended the reserves, and the Canadian Minister of Trade and Commerce has effected an amendment of export regulations changing the one-year gas export permit to a 22-year permit, he remains opposed to the Canadian plan.

On the other hand, Portland Gas & Coke Company has favored the Westcoast project based on a report by the Bechtel Corp., but Mr. Gellert is not convinced that the report is "either impartial or objective." Hence Seattle Gas Company has engaged Commonwealth Services, Inc., consulting engineers, to make a careful study of the cost estimates prepared by Pacific Northwest Pipeline Company and by Westcoast.

Mr. Gellert analyzed the 22-year permit of the Canadian Government and concluded that "the quantity of gas to be delivered and the price to be charged will for 22 years be under the control of the Government of Canada. . . . We can see nothing in the permit or Act which would allow the Federal Power Commission to regulate a Canadian natural gas pipeline. . . . No matter what the contract between American utility companies and the American pipeline company, with its short length of line in the United States, the source of gas will be in Canada, and the 22-year permit directs how that gas shall be used. Any guarantee of delivery by the Canadian pipeline is worthless, for that reason, and a legal assurance that the contracted-for-amount of gas will be delivered is impossible."

He also pointed out that if the Canadians should need gas for the development of their own industries in British Columbia or elsewhere, they might well impose an export tax of 10 cents per 1,000 mcf. This would tend to price American utilities out of the industrial market, despite Seattle Gas' ability to manufacture 1,000 BTU gas at reasonable cost.

On the other hand, if the pipeline were built by Pacific Northwest Pipeline from New Mexico, Mr. Gellert stated that it would help to develop natural gas resources in the San Juan Basin—"it will furnish a market for wells already drilled, and now capped, and encourage the additional exploration for gas in Colorado, Utah, Wyoming, Idaho, and Washington, for which there will be either no market, or only a very local one, if the pipeline from Canada is built. . . . Forty million dollars in royalties will be paid to state and Federal authorities. . . . It will supply Colorado, Idaho, eastern Oregon and parts of Wyoming with natural gas, making up the large deficiency in Colorado and Wyoming, and taking care of the others which would be abandoned areas, as far as natural gas service is concerned, if a Canadian line were to be built."

Questioned as to the reserves in the two areas, Mr. Gellert mentioned that the substantial increase in Peace River Basin reserves is based on very few wells. He understood that DeGolyer (well-known expert) will testify that reserves in the San Juan Basin dedicated to the proposed pipeline total 3.2 trillion cubic feet. As of January 1953, there were 800 wells in San Juan and total estimated reserves had been increased to 12 trillion c. f. As of the present time, Mr. Gellert believes there are 17 trillion c. f. and that the San Juan reserves are more than double the total gas reserves of Canada.

The Federal Power Commission is now holding hearings on the question as to what company should service the Northwest.

Gairdner Co. Absorbs Lightcap Securities

WINNIPEG, Canada—Gairdner & Co., Ltd. has absorbed the securities business of Lightcap Securities, Ltd. J. S. Lightcap will continue with Gairdner & Co., in their new office in the Somerset Building. Frank J. McDonald, previously with Gairdner in Toronto, will be in charge of the new office.

Davis, Skaggs Co. Admits Many Partners

SAN FRANCISCO, Calif.—Davis, Skaggs & Co., 111 Sutter Street, members of the San Francisco Stock Exchange, have admitted to general partnership of Charles C. Clarke, Reginald Kennedy, Herbert McCormick, Richard M. Davis, Robert P. Mann, Albert L. Serafino and Walter F. Schag.

From Washington Ahead of the News

By CARLISLE BARGERON

A few days after the Administration, in the words of Congressman Dan Reed, had thrown up the white flag in the matter of balancing the budget, my secretary breathed a sigh of relief and said she was glad the suspense was over.

Carlisle Bargeron

"I have been worrying for a long time," she said, "over what might happen if the free and easy spending was suddenly cut off. After all, the country has been going along for many years now on this government spending. I don't believe you can just suddenly say it is to be ended and not cause a lot of harm."

The trouble is that this young lady's feeling is shared by a lot of other Americans, many of them in high and influential places. There is ample ground for the belief, in fact, that this feeling had considerable bearing on what really did amount to a hoisting of the white flag on the part of the budget balancers.

The actions of two top Cabinet officials, first Secretary of the Treasury Humphrey and then, Defense Secretary Wilson in appearing tandem like before Congress to announce bluntly that the budget could not be balanced now or next year and probably not for two years, was not good politics. It caught the members of Congress by surprise and it embarrassed those Republicans who have got to run again next year. They promised a balanced budget and lower taxes and they would prefer to keep the hopes of the taxpayers alive as they have been trying to do and as they will continue to try to do. But they have it from the Treasury Secretary that the Administration has come to the point of being definitely opposed to even the effort in this direction for a considerable time to come.

The utter lack of good politics in such an attitude may be explained by the fact that the Eisenhower Administration is woefully short of political talent. On the other hand, there are distinct indications that the actions of Messrs. Humphrey and Wilson were deliberately planned with the intention of reassuring the country that the Republicans are not going to do anything drastic, or that they are not going to overturn the applecart. Everybody can turn over and go back to sleep, the Republicans aren't going to turn off the spout of foreign and military spending, not right at this time, maybe just a little bit later when the country has gotten used to them, has come to have confidence in them.

It is amazing that the country would need such reassurance but there is reason for the belief that it does. At every turn this writer has heard apprehensions about what was going to happen when the Republicans chopped off heads and cut down on Government spending. One would expect to hear such feeling here in Washington where the Government is the main industry and everything else turns around it. A transition of governments is a disturbing unsettling factor in our local economy. But I have heard the same concern expresed by industrialists, cattle raisers and others from the rest of the country.

A recent statement by Benjamin Fairless of U. S. Steel, to the effect that "if world-wide peace should become a reality this year"* it would bring idleness to the new plants and plant expansions that were built up under the prodding of the government and quick tax amortization plans, had a considerable impact upon political Washington. It strikes me as significant that only a few weeks ago Mr. Humphrey, speaking from New York, was breathing confidence that the transition from war to peace would not bother this country in the least. Now, he seems to feel the need of telling the country that the spending will be with us for a while yet.

This is the first time since I was old enough to read the newspapers that the Republicans have been in the light of being the deflationists or bringers of hard times. Always in the past the election of a Democratic governor, outside the South, or of a Democratic National government, meant the reduction of employment rolls. But the Republicans are apparently in that role now. From reports I receive from around the country there is a nervousness over what they may do, over their breaking up the gravy train. The Democrats came to power in 1933 with a tremendous unemployment, and finally through war and inflation brought about a full employment. They were an amazing lot of political prestidigitators. They kept warning the people against inflation and taking their money—"siphoning off their savings"—to prevent inflation, yet continuing inflation all the time.

Seemingly the Republicans have a job on their hands of selling the country that while they intend to be sensible in government, they are not going to be too sensible, or sensible enough to cause anybody any temporary inconvenience.

*Full text of Mr. Fairless' speech appears in April 16 Chronicle, page 9. —Editor.

Daggett Securities Formed

NEWARK, N. J.—Daggett Securities, Inc. has been formed with offices at 75 Bloomfield Avenue to engage in the securities business. Officers are: E. Daggett, President; A. C. Chiarolenza, Vice-President; A. F. Chiarolenza, Second Vice-President; J. C. Chiarolenza, Secretary, and M. Luster, Treasurer. Mr. Luster was previously with Tellier & Co. and E. M. North Co.

Ends 50 Years of Service

Fred Ruhl who has been associated with the firm of Lehman Brothers, 1 William Street, New York City, for the past 50 years, the major portion of which time he was Cashier, retired May 1, 1953. To mark his anniversary Mr. Ruhl was tendered a reception and presented with an appropriate gift by the partners of the firm.

Taxing the Source of Welfare and Security

By DONALD B. WOODWARD*
Vice-President for Research
The Mutual Life Insurance Company of New York

Mr. Woodward, in illustrating the high rate of production and income the United States has achieved, ascribes this rate to the large volume of savings which has been applied to private investment. Points out capital investment needed for worker is constantly rising and, therefore, contends taxation which reduces or discourages investment is a detriment to welfare and security. Lists recommendations for easing tax-burden on savings and private investment.

Just about every economic discussion should start with attention to that feature of the United States which is truly unique. It is the feature in which this country excels, and by a wide margin, every country on earth and every country in all history. It is the feature which, as both Dr. Shepard Clough[1] and Dr. Hu Shih[2] have observed, makes morality and civilization and virtue possible, and without which they are improbable. It is the feature which has made possible the emancipation of women and has gone far toward the abolition of poverty in this country. It is the feature which gives this country its great power in world affairs. It is, therefore, the fundamental source of our national welfare and security.

Donald B. Woodward

The feature I mean is the high rate of production and income the United States has achieved. U. S. per capita income led the world in 1951 at $1,800 as the chart now before you shows. The nearest approach to that figure was $1,300 in Canada. The figure grades rapidly downward to little more than $600 in the United Kingdom and on down to an average of $100 or less for something like half of the population of the world. The chart may convey better than my words something of the startling differences among even the more advanced countries. The real income per capita in the United States has trended upward for a long period of time, having increased 75%, for example, since the end of World War I, and 120% since the turn of the century. The dollar income per capita has, of course, risen more, due to inflation, but it is the real income figures which are significant.

Just by way of contrast, can you imagine the position of the United States in world affairs today if production and income per head were 50%, or even 25% lower than now? Can you imagine how different the standard of living of the American people would be if production per head were 50%, or even 25% lower? Can you think how many business firms would either be much smaller or nonexistent? If your imagination is sufficient for this endeavor, you probably will be more gratified with America's accomplishment than ever before.

In view of the unique level and solemn significance of this country's rate of production, it is surely important to think very seriously about how we did it. How did we get here? A brilliant exposition of economic function and causation in Canada was recently presented to a Parliamentary Committee by Dr. Gilbert Jackson[3], the distinguished Canadian economist, and I have adapted his methodology for this occasion. I hope it will be as illuminating for you as it has been for me.

A little less than four minutes of arithmetic will be required for this purpose. I shall go through it orally, and simultaneously it will be shown on the screen.

Thirty Years of Investment in Private Pursuits

In the period of 1929-1952, 10.8% or $12,713,000,000 annual average of total production was saved and invested in private pursuits in the American economy. Total production is called gross national product in statistical terminology. This annual average figure of $12,713,000,000 saved and invested in private pursuits, and all the other figures in this particular analysis, are in dollars of 1935-1939 value; i.e., the effects of price fluctuation have been eliminated in order to see the reality.

Now let us inquire what was associated with this saving and investment in private pursuits. The past quarter century, which the annual average covers, began and has ended with several years of high prosperity and high employment. The economy in the period 1927, 1928 and 1929, and again in 1950, 1951 and 1952, has been in a condition generally regarded as desirable in that nearly everyone wanting a job had a job, and incomes were high. Certainly there is no normal or even typical year from which to make computations. But perhaps if we measure from the average of the late '20s to the average of recent years we may be calculating between reasonably desirable, if not perfect or ideal periods — and the achievement of perfection is hardly to be expected. Again using figures in constant dollars, from 1927-29 to 1950-52 total production rose $4,235,000,000 annually, or 3.6% compounded.

These two sets of figures reveal a profoundly significant relationship. They show that $3 of private domestic investment increased total production $1 per annum: the relation of $12,713,000,000 and $4,235,000,000 is three to one. This occurred over a prolonged period of time, containing a wide variety of conditions.

Thus the saving of 10.8% of production was required to build up production by 3.6% each year compounded. This has been the condition of economic progress in the United States. With variations in the numbers, this has been what Dr. Jackson shows to have been the condition of progress in Canada.

This 10.8% annual rate of saving and private investment provides the equipment both for a rising population and for increasing productivity. During the quarter century under review the population rose at an annual average rate of about 1% and output per head rose at an annual average rate of about 2½%. The combination of these two trends—rising population and rising productivity—make up the 3.6% annual increase in production springing from the 10.8% of total production saved and invested in private pursuits. At this rate of increase of 3.6% per annum compounded, total output and therefore total income double every 20 years.

This completes the arithmetic exposition. This sophisticated audience will realize that the same pattern has prevailed over the last century of American history, as shown by the remarkable work of Dr. Simon Kuznets[4] and Dr. Raymond Goldsmith[5] — to mention only two outstanding studies. The saving and productivity rates of the past quarter century are of the same order of magnitude as those of the longer periods.

Workers Need Large Capital Investment

This system involving saving to win rising productivity and production means that each worker requires a large capital investment. Capital equipment required on the job for each worker in manufacturing in 1948, the latest year The Conference Board has calculated it, was $8,500. This ranged from a high of $77,000 in oil and coal to a low of $3,000 in apparel. The investment for on the job equipment is, of course, only part of the requirement, for there must also be housing and other necessities and conveniences. Other occupations than manufacturing also require high investment.

The pattern of rising productivity and output associated with saving and private investment has persisted for so long and with such reliability that one is entitled to assume that it can be predictive. If the saving and investing which has brought our country to such a unique level of production is continued, we are entitled to believe that continuing increase in the amount of production and income per head can be achieved.

Indeed the probability of persisting achievement, if we but continue to fulfill the conditions, seems to me to be even greater for a considerable period ahead than it might have been regarded at any time in the past. More resources of men, money and materials are being devoted to scientific research than ever before. Science and technology probably give greater opportunity for investment to increase productivity and diminish the cost of production than at any time in the past.

The people of the United States therefore appear to have a choice. There is persuasive reason to believe that production per head can continue to be increased by something like 2½% per year compounded if savings and private investment are continued unimpaired. And the same results as in the past should be achieved in production, in standard of living, in economic and military security and world power. It is at least a possibility that economic progress could be accelerated if the average annual rate of saving and private investment of the past quarter century were enlarged. Or, on the other hand, the American people can diminish the rate of saving and private investment and as a consequence, reduce the rate of economic progress.

Influence of Taxation

Perhaps the most influential instrument through which that choice will be exercised is taxation. Through taxation the process of saving and of private investment can be stimulated or curtailed.

Of course, other factors than taxation influence the efficacy of saving and private investment. These include the diligence or indifference of management and labor, the preservation or restraint of competition, the degree to which freedom is maintained and preserved. But assuming that we have the sense God gave geese in these instances — and I am willing to make such an assumption — the decision about economic progress is likely to be made by taxation.

In recent years, even over the last decade, existing taxes have been increased on this beneficent process of savings and private investment and new taxes have been laid upon it. The list and the magnitudes of these taxes are generally well known, and so no detailed discussion or statistical presentation is necessary.

But an enumeration may serve usefully as a reminder. Individual incomes are taxed at steeply graduated rates. The individual income tax system is so devised as to hit hardest those very incomes which are responsible for the preponderant amount of saving and investment. People with higher incomes did most of the saving in 1950, and this is the persisting pattern. The sum of accumulated saving invested in private pursuits is in turn harshly set upon by estate and inheritance taxes which operate purposefully to tear down savings and to bring disinvestment. Gains in capital transactions are taxed more steeply than in any other significant country on earth; but the individual taking losses on capital transactions is allowed small relief. The purchase and sale of capital assets is afflicted with transfer and related taxes to a degree that diminishes the liquidity of markets. Any funds saved and invested by individuals are fallen upon by the property tax collectors of most state and local governmental units.

The fruits of investment are stunted by tremendous levies upon the business institutions in which investment is made. Business corporations are the object of very heavy corporate taxes and an excess profits tax is superimposed. The income earned by investment instruments is taxed in the business corporation and only interest on borrowing is deductible; and when corporate earnings are paid as dividends and interest, they are taxed again to the individual recipient. Saving through institutions, so necessary for an urbanized population, is penalized by an array of taxes. Even the smallest annual amounts paid as life insurance premiums are taxed in many jurisdictions, and savings in most significant savings institutions are again attacked by income taxes on all or on part of the income of these institutions. Something that perilously approaches triple taxation of income occurs where sometimes the income is taxed in the manufacturing corporation, is taxed again in the savings institution, and is taxed yet again on receipt by the individual.

It is indeed fortunate that, despite these impediments and obstacles, saving and investment in private pursuits in the American economy during recent years have proceeded at so high a level. It is also remarkable that in view of the tax afflictions the high level of recent years has been achieved.

But the satisfaction that is sometimes voiced on this score should be, I would suggest, rather severely limited. Before settling into equanimity, we should look carefully to see if there is a serpent in this seeming paradise. When we look a little more closely, there are some signs not too reassuring, that seem to point to enervation.

1. The real amount of savings and private investment that occurred over recent years is some-

*Talk by Mr. Woodward at the Dinner Session of the Special Tax Conference of the National Industrial Conference Board, New York City, April 16, 1953.

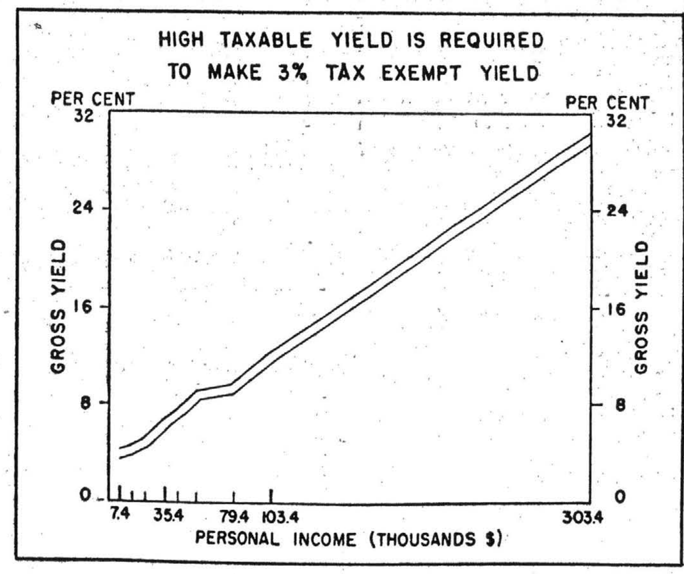
1 *The Rise and Fall of Civilization*, published by McGraw-Hill, 1951. *The American Way*, published by Thomas Y. Crowell, 1953.

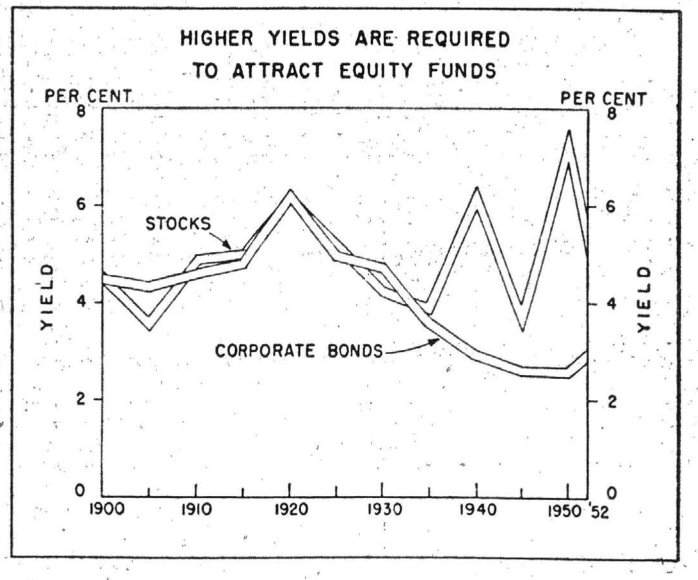
2 Essay in *Whither Mankind*, published by Longmans Green & Co., 1928.

3 "Proceedings of the Standing Committee on Finance," The Senate of Canada, June 11, 1952, Queen's Printer and Controller of Stationery, Ottawa, 1952.

4 "Proportion of Capital Formation to National Product," American Economic Review, May, 1952.

5 "Study of Saving in the United States," soon to be issued by Princeton University Press.





what, and perhaps greatly, overstated. Presently accepted accounting methods seriously overstate profits and thus retained earnings and thus investment in an inflationary period. The real cost of replacing capital equipment is not currently taken into account, and appears only when the replacement is made, some years hence.

2. Some, and perhaps much, of what has been counted as investment is in fact only maintenance. In this connection — and indeed in connection with the whole subject of how much equanimity is justified about private investment in recent years — I commend to your thoughtful attention the challenging and provocative study by Dr. George Hagedorn just issued by the National Association of Manufacturers entitled "Major Tendencies in Business Finance."[6]

3. Depreciation and obsolescene are running faster in many cases than the tax law recognizes. Thus the statute compels overstatement of earnings and so of retained earnings and of investment.

4. The present spread between the yield on stocks and the yield on corporate bonds is challenging. The chart shows these yields for the past half century. Higher yields are required to attract equity funds. Note the much wider spread that exists during recent years, which are the years of the very high taxation on savings and private investment. Something is happening to the relative availability of savings for equity investment, or to the attractiveness of equities as compared with bonds. This is to say that something adverse appears to be happening to the position of the entrepreneur, who is a vital feature in the function of saving and private investment. That taxation is a significant factor in this alteration is indicated by many pieces of evidence. Important among these is the fact that demand for common stocks comes from higher income groups. The chart, adapted from the University of Michigan studies, shows that interest in equities rises as income rises — and that, of course, is where the tax system is designed to hit hardest in several respects, as I earlier discussed.

5. A related piece of evidence is the large number of stocks lately selling below book value. Of a list of stocks of 563 leading corporations, 234, or 41% during recent weeks sold at 10% or more—often much more — below book value. And book value, in turn, is generally far below present replacement cost, due to the inflation. This is a picture of marked enervation — even anemia.

6. The competition for funds that private business meets from tax-exempt havens is a serious consideration. The chart shows that a high taxable yield is required to match 3% tax-exempt yield — and 3% tax-exempt yield is now available in some volume, and the need for expansion of state and municipal facilities indicates the volume of tax-exempts will grow. The taxable yield necessary to compete with the tax-exempt yield of course rises steeply with personal income levels. With the preponderant part of saving done in the higher income levels the high competition is very real. A tax system which puts private enterprise behind this kind of an eight ball does not seem well devised to encourage savings and investment in private enterprise to achieve the continuing progress that has been realized over the past, and from which this country's great strength has come.

The Lesson of Britain

If I seem inordinately solicitous or apprehensive to you, if concern about these points seems to show excessive apprehension, will you consider the case of Great Britain as exculpation? Great Britain has been following for a much longer time than the United States a system of heavy taxation upon saving and private investment. Personal savings have been literally obliterated in Britain.[7] This extinction of personal saving is one of the fundamentally terrifying aspects of the economic, political and military weakness of that great nation which served so valiantly the peace and progress of the world for so long a time. The new British budget just published shows evidence of a recognition of the problem, but its cure is far away at best. The lesson of Britain is that vigilance to protect and safeguard the beneficial function of saving and private investment can hardly be overdone.

The lesson of Britain is that the tax burden borne by saving and private investment may exert influences which become visible to the untrained naked eye only after some delay. Analogously, tuberculosis and cancer do not cause death or even loss of vigor at the moment of their onset nor for some time afterward. The afflicted individual may appear healthy and robust for a considerable period of time, and may view his physical condition with complete equanimity and confidence. By the time the evidences of affliction are prominent, the case may be dire—it may even be hopeless. Good physical health requires constant diligence and vigilance. And so ladies and gentlemen, does economic health.

All this evidence seems to me to point toward an unmistakable conclusion. This country should reconsider its policy of taxation upon the process of saving and private investment, and should reduce that taxation.

The happiest way to achieve such a reduction would be through a diminution in the expenditures and thus the necessary revenues of government. But if this is not achievable, I propose to you that the burden of taxation upon the saving and private investment function should be reduced anyway, even if it is necessary to increase taxes upon consumption to achieve it. This country can progress in welfare, and in power, and in security, with a little less consumption — it has done so in all past history. But this country jeopardizes its future, its welfare and its security when it imperils saving and private investment. The issue seems to me to be as simple and clear-cut as that.

A Basis of Tax Reform

Subject to correction by the tax experts as to the most effective points at which to reduce the tax burden on saving and private investment, I would suggest particular attention to those impositions aimed exclusively and solely at economic growth through savings and investment. The most harmful of these seem to me to be:

1. The excess profit tax which is aimed to restrict economic growth.

2. Double taxation of corporate income — once to the corporation and once to the stockholder. This strikes hard and exclusively at saving and investment.

3. The capital gains tax, including the holding period, and the niggardly provision for losses. This combination directly penalizes saving and investment, and curtails the most efficient use of accumulated savings by their owners.

4. All forms of taxation on the institutions and instruments which serve as intermediary handlers of savings and investments. These could not be better designed if they sought the most effective possible way to restrict saving and private investment. A tax on spending if necessary to raise revenue, would make some economic sense in most periods, but these taxes on savings are destructive of the very vitals of our welfare and safety.

And it should be the avowed policy of this society that all the other taxes imposed on savings and investment should be reexamined, so as to provide as great assurance as possible that the process of saving and private investment will function effectively. I think the essential and immediate needs could be served by reduction at least, or better still, complete elimination of the few items mentioned, and a stated and certain determination for continuing attention to the problem to assure adequate functioning to reinforce the assurance.

The evidence strongly suggests that very early action is needed. Next only to the evil concepts which guide the Russian autocrats, probably the greatest peril of our times is that philosophy which calls for the euthanasia of the rentier.[8] Too long we have fondled this noxious doctrine, thus risking the corruption of our cornucopia.

6 "Major Tendencies in Business Finance," by George G. Hagedorn, National Association of Manufacturers, 1953.

7 "National Provincial Bank Review," February 1953; National Industrial Conference Board "Business Record," April, 1953.

8 "The General Theory of Employment, Interest and Money," by John Maynard Keynes, Harcourt, Brace & Co., 1936, p. 376.

Bankers Offer Stock Of Columbia Gas Syst.

Public offering of 1,700,000 shares of common stock of The Columbia Gas System, Inc., was made yesterday (May 13) by a group headed by Merrill Lynch, Pierce, Fenner & Beane; White, Weld & Co.; Shields & Co. and R. W. Pressprich & Co. The stock is priced at $13.25 per share.

Net proceeds from the sale will be added to general funds of the corporation and together with other funds will be available for a part of the 1953 construction program. The program includes construction of additional transmission lines, compressor stations and other transmission facilities; distribution facilities, including mains, service lines and meters; drilling of storage wells; drilling new wells and drilling existing wells deeper; installation of well and field lines.

The corporation is a public utility holding company which together with 15 operating companies and a subsidiary service company comprise an inter-connected natural gas system. The operating subsidiaries engage in the production, transmission and distribution of natural gas. Certain subsidiaries produce and sell gas line and other hydro-carbons and one subsidiary produces and sells oil. Retail natural gas operations are conducted in the States of West Virginia, Ohio, Kentucky, Pennsylvania, Maryland, New York and Virginia. The system also has extensive wholesale business and sells natural gas to non-affiliated public utility companies for resale to their customers.

Consolidated gross revenues for the 12 months ended March 31, 1953, totaled $213,564,000 and net income amounted to $14,285,000, the latter equal to 88¢ a share on the average number of common shares outstanding.

W. S. Kies, Jr. Director

W. S. Kies, Jr., Senior Partner of W. S. Kies & Company has been elected a Director and Member of the Executive Committee of Acme Aluminum Alloys, Inc., Dayton, Ohio. Mr. Kies is also a Vice-President and Director of Barker Bros. Corp. and a Director of West Virginia Coal & Coke Corp., and Michigan Gas Utilities Co.

Taxes and Compensation Of Employees

By MEYER M. GOLDSTEIN*

Executive Director, Pension Planning Company, N. Y. City

Mr. Goldstein maintains high income tax rates have made it necessary to scrutinize taxes in connection with every business transaction, including various forms of employee and executive compensation, as well as employee benefits. Also, particularly in case of closely held corporations, cites opportunity of tax-saving through corporate stock redemption upon death of employee or executive.

High income tax rates have made it necessary to consider taxes in connection with every business transaction, including various forms of employee and executive compensation, as well as employee benefits. In fact, it behooves a company to constantly re-examine its entire program by a fresh audit of compensation techniques.

Meyer M. Goldstein

First, as to Pensions, Profit-Sharing, and Stock-bonus Trusts — few companies have utilized all of the potentialities for tax benefits which our tax law provides. Among these are:

(1) Many companies are not claiming the maximum tax advantage in their high-profit, high-tax years.

This comes about because they have used a rigid method of funding and hence there is no flexibility. Thus, they are unable to claim the maximum permitted tax deduction in their peak years and with the freedom to reduce or suspend contributions entirely in bad years without necessarily disturbing the actuarial or tax soundness of the plan.

(2) Some companies are failing to avail themselves of the opportunity for deferring, with capital gains possibilities, excess contributions from Bonus and Incentive plans. It is possible to coordinate cash Bonus and Incentive plans with trusts in such a way as to store up amounts which are not currently needed for living expenses for future distribution. These surplus amounts can accumulate income tax free, and when paid out can be entitled to the capital gains tax treatment with a maximum tax bracket of 26% under the current Internal Revenue Code.

(3) Employees and Executives are frequently being deprived of the opportunity for capital gains or, in some cases no income tax at all, on the pay-outs.

Under certain circumstances it is permitted, under the tax law, to make pay-outs of employee trusts on a basis which will allow the employee and executive to utilize the capital gains tax rates. Further, where company stock is involved, it is possible that there may be no income tax at all on the unrealized appreciation. That is, the employee would owe no tax on the appreciation in value of his company stock until he sells the stock, and, if he holds the stock until he dies, his estate will take a stepped-up basis and could sell without having paid income tax or capital gains tax on the appreciation in value during his lifetime.

Second, as to various forms of group coverages, including group life, hospitalization, surgical, daily medical expense and medical catastrophe, there is another opportunity for the rare combination under the tax law of a current tax deduction by the employer without a corresponding immediate income tax to the employees.

Opportunity in Stock Redemption

A third area, particularly with closely-held corporations, is the opportunity for:

(1) Redemption of Corporate Stock upon the death of an employee or executive, with the possibility of avoiding income tax on the appreciation.

An executive could acquire corporate stock and then through a buy-and-sell agreement arrange for the corporation to redeem his stock when he dies. The tax law would allow the executive's estate to sell to the corporation free from tax on the appreciation under the following circumstances: If the value of his stock in the corporation, which is included in the deceased executive's estate, amounts to more than 35% of the value of his gross estate, so much of such stock may be redeemed by the corporation after the owner's death as is necessary to pay the Federal death taxes due by the estate. In such a case, none of the proceeds will be taxed as a dividend; and if the redemption is made at the same price as the stock is valued for Federal estate tax purposes, no capital gain will be involved.

Further, this provision is of great value to many owners of close corporation stock who hope to retain most of their holdings after death.

(2) Utilizing the tax law which permits the corporation to give up to $5,000 of death benefits free of income tax to the deceased executive's family, provided the death benefit is part of an employment contract between the company and its executive.

Finally, the responsibility of good citizenship requires the payment of all taxes due but also assumes the full knowledge and use of the tax saving opportunities that Congress has put into the tax law.

*Paper delivered before the Newark, N. J., Chapter of the Chartered Life Underwriters on April 28, 1953.

Halsey, Stuart Group Offer Equip. Tr. Ctfs.

A group headed by Halsey, Stuart & Co. Inc. yesterday (May 13) offered $2,010,000 Western Maryland Ry. Co. 3⅜% equipment trust certificates series Q, maturing annually from June 15, 1954, to June 15, 1968, inclusive. Issued under the Philadelphia Plan the certificates are priced to yield from 2.75% to 3.50%, according to maturity and are being offered subject to the approval of the Interstate Commerce Commission.

The certificates will be secured by the following new standard gauge railroad equipment estimated to cost not less than $2,514,403: 250 50-ton box cars and 133 70-ton gondola cars.

Other members of the offering group are: R. W. Pressprich & Co.; Freeman & Co.; Gregory & Son Inc.; The Illinois Co.; McMaster Hutchinson & Co., and Wm. E. Pollock & Co., Inc.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week — Bank Stocks

In view of the favorable outlook for banking operations for 1953, it would seem opportune to review the market action of bank stocks so far this year.

As the situation now stands, it appears certain that the current year will be a record one for bank earnings. This prospect has been strengthened by events of recent weeks. The rise in the prime loan rate in the major money centers assures a further increase in the rate of return on bank earning assets. At the same time business loans have not shown the usual seasonal decline this year so that a larger portion of assets will be employed in loans which provide a higher return.

The combination of these factors is expected to produce a favorable gain in earnings. The second quarter should show improvement over the initial three months as well as the similar period of a year ago. Providing business remains fairly stable throughout the last half, the gain in earnings should continue.

Based upon the present outlook an increase of close to 10% is expected in operating results as compared with those of 1952. Of course final earnings will depend to a great extent on what happens to the Excess Profits Tax. As many banks are reaching a point where any additional gain in earnings will be subject to the E. P. T. rates, unless the law is allowed to expire on June 30 a large part of the benefit of the improved operating conditions may be absorbed in higher tax liabilities. Regardless of this, however, most of the banks should be able to show a favorable gain in earnings for 1953.

Considering this background of operating prospects, what has been the market action of bank stocks since the end of the year?

Prices of New York bank shares and selected issues in other large cities as of Dec. 31, 1952 and currently are compared in the following tabulation.

	Current Market Bid	Bid Dec. 31 1952	Change	1953 Price Range
Bank of Manhattan	33¼	35	— 1¾	35½— 32½
Bank of New York	372	379	— 7	398 —370
Bankers Trust	51¾	53	— 1¼	55⅞— 50¼
Chase National	45¾	48½	— 2¾	50 — 44⅜
Chemical Bank	47⅞	49¾	— 1⅞	52¾— 46¾
Corn Exchange	62	65¾	— 3¾	67¾— 61¼
Empire Trust	130	140	—10	144 —130
First National	400	394	+ 6	419 —386
Guaranty Trust	67¼	72¼	— 5	73 — 63¾
Hanover Bank	97½	99	— 1½	102½— 93½
Irving Trust	22¼	23¾	— 1½	24½— 21
Manufacturers Trust	62¼	64½	— 2¼	66¾— 60½
Morgan, J. P.	277	283	— 6	304 —274
National City	50⅛	51⅜	— 1¼	54¾— 48⅜
New York Trust	107	117	—10	117¼—105½
Public National	44½	46⅞	— 2¾	49 — 44½
U. S. Trust	274	269	+ 5	295 —267
Bank of America	29¼	30⅞	— 1⅝	32⅝— 28¾
First National—Boston	49	50	— 1	54⅛— 48
First National—Chicago	245	250	— 5	275 —239
Continental Ill. National	86	93	— 7	94¼— 85
Security First Nat'l (L. A.)	103½	102	+ 1½	108½—102

As can be seen from the above tabulation, the general trend of prices so far this year has been downward. In most instances the declines have been modest but only a few stocks have moved counter to the trend.

The pattern of bank stock movements has been much the same as the general market. Standard & Poor's index of New York City bank stocks was strong at the year-end and under the stimulus of favorable annual reports and higher dividends moved upward throughout January, reaching a high for the year of 129.3 on Feb. 4. From that point it declined until April 22 when it was 119.0. Since that time it has moved slightly higher to 122.0 reached at the end of last week. The decline since Dec. 31, 1952, when it was 127.3, has been 5.3 points and from the high 7.3 points.

The Dow-Jones Industrial Average on the other hand ended the year at 291.90. After reaching a high of 293.79 on Jan. 5, the readjustment carried the average to a low of 270.73 on April 22. At the present level of 278.79 the average is 13.11 points below the figure at the end of 1952 and 15.00 points below the high of the year.

In view of the general market action the showing of bank stocks is considered as generally satisfactory. While the prospects of a favorable operating year could have inspired more buying, the sharp rise in interest rates has tended to depress share prices. In other words, as yields on fixed income obligations have risen, it has become less advantageous to buy bank stocks for income purposes. Of course higher bank earnings will eventually lead to higher dividends but such increases over the next year are likely to be modest.

Britain's Shaky Commonwealth Economic Plan

By PAUL EINZIG

Dr. Einzig in calling attention to forthcoming conference of Commonwealth Prime Ministers in London attending the Coronation, expresses view little will be accomplished and a new Commonwealth Economic Plan will have to be developed. Says Anthony Eden and Chancellor of the Exchequer Butler returned from U. S. "empty handed."

LONDON, Eng.—On June 4 the Commonwealth Prime Ministers attending the Coronation of Queen Elizabeth II will meet in a Conference under the Chairmanship of Sir Winston Churchill. One of the main subjects on the Agenda is an account to be given by Mr. Butler about the situation in respect of the Commonwealth Economic Plan elaborated at the Commonwealth Conference of November, 1952. The Commonwealth Governments have been kept up to date with information about the outcome of the negotiations in Washington and Paris so that there will be no need for covering the ground in detail. What Mr. Butler is expected to do is to indicate to the Commonwealth Prime Ministers the broad outlines of the position and prospects. The Commonwealth Prime Ministers are no doubt aware that the new United States Administration have reserved judgment on the Commonwealth Plan and that there is no likelihood of any development of a decisive character from that direction by June 4. On the other hand, negotiations are in progress with the object of softening the resistance of the Western European Governments to the convertibility scheme and of obtaining the necessary safeguards from them to ensure that convertibility is not endangered as it was in 1947 by greedy and selfish action on the part of Continental countries. Possibly there may be some results by June, though in themselves they could not decisively affect the situation in the absence of a decision from Washington.

Dr. Paul Einzig

So far the indications received from Washington have not been encouraging and, unless Mr. Lewis Douglas who arrived in London at the end of April has succeeded in reassuring the British Government, the atmosphere in which the Commonwealth Conference will meet will be pessimistic rather than otherwise. It will be necessary for the Commonwealth Prime Ministers to envisage the possibility that no adequate support would be forthcoming for their Economic Plan from Washington. They would utterly lack reality if they were to fail to face that possibility.

The question is what should be the next step if in the absence of adequate support from Washington the Commonwealth Plan or its most essential parts would prove to be impracticable. Conceivably Mr. Butler may indicate the outlines of the possible changes in the plan that might be suggested with the object of making it more palatable for the Washington Administration and Congress. Judging by the fact that there are no preliminary meetings by officials to prepare the Conference it seems probable that, if any such proposals should be put forward, they would be confined to broad generalities. The chances are that, unless and until the Commonwealth Plan is rejected by the United States, it would be upheld substantially unchanged in the form in which it was communicated in March to Members of the Administration.

In the circumstances the Plan itself provides but little scope for detailed discussion. Notwithstanding this, on the overcrowded agenda of the meeting, a day has been earmarked for consideration of economic questions by the Commonwealth Conference. It seems reasonable to assume that at least part of that day will be spent in exploring tentatively the possibilities of alternative solutions if the Commonwealth Plan should have to be discarded.

The alternative to multilateral trading on an international scale envisaged by the Commonwealth Plan would be a strengthening of economic ties between the Commonwealth countries. During the Commonwealth Conference of October - November last, most Commonwealth Prime Ministers showed no enthusiasm for the idea. They declared themselves unwilling to extend the system of Imperial preference. Even though Britain was prepared to offer them concessions there was no reciprocity. This was because evidently the countries of the Commonwealth preferred the solution of indiscriminate multilateral trading with the dollar area and the rest of the world.

In the meantime, however, it has become increasingly evident that the creation of the preliminary conditions for such indiscriminate trading is likely to encounter difficulties. Mr. Eden and Mr. Butler have returned from Washington empty-handed, and the attitude of the new Administration as far as it can be judged from its acts as distinct from its words, has been anything but encouraging. Hopes for a more liberal attitude towards the admission of British and other non-American goods to the United States have declined considerably as a result of the refusal of the British tender for the Chief Joseph Dam contract. The attitude of the Administration is interpreted in London as indicating either unwillingness or inability on the part of the Administration to give British firms a fair chance in the American market.

There is reason to believe that this experience has created a profound impression, not only in Britain but also in other Commonwealth countries. They now have a better idea of what they can reasonably expect from the point of view of expanding their exports to the dollar area. In the circumstances it would not be surprising if at least some of the Commonwealth Prime Ministers showed themselves more favorable to an extension of Imperial Preference than they did on the occasion of the last Commonwealth Conference.

There can of course be no question of embarking on anything definite in that direction so long as there is hope for a favorable change in the American attitude. On the other hand the Commonwealth Prime Ministers may feel that it would be a pity to waste an opportunity such as will be offered by their presence in London for the Coronation. They may want to consider at least the broad principles of the alternative solution—there could not possibly be enough time for more—even if any definite decision will have to await the answer from Washington. It is therefore conceivable that the day earmarked for economic discussions may be used for discussing the steps which the Commonwealth may reluctantly be forced to take should the attempted multilateral solution prove to be impracticable. No decision can be completed but the meeting may prepare the ground for detailed discussions if and when the need for them should arise.

Three With Davies Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—Arthur G. Meldrim, Caryl C. Turner and Howard M. Yeager have become associated with Davies & Co., 425 Montgomery Street, members of the New York and San Francisco Stock Exchanges. Mr. Meldrim was formerly with Walston & Co. Mr. Turner was with James Ebert Co.

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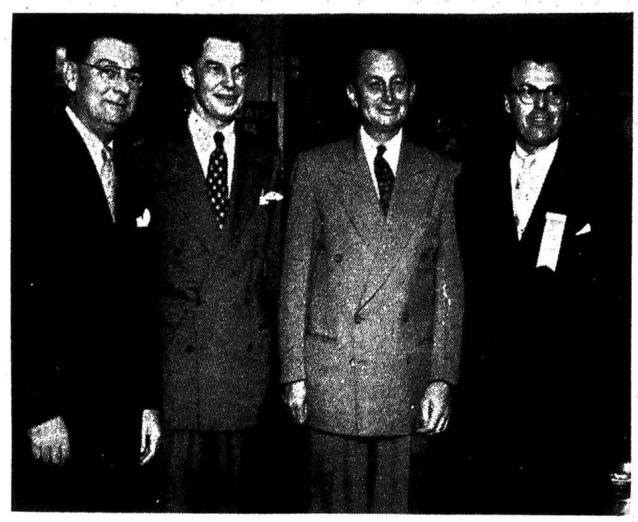

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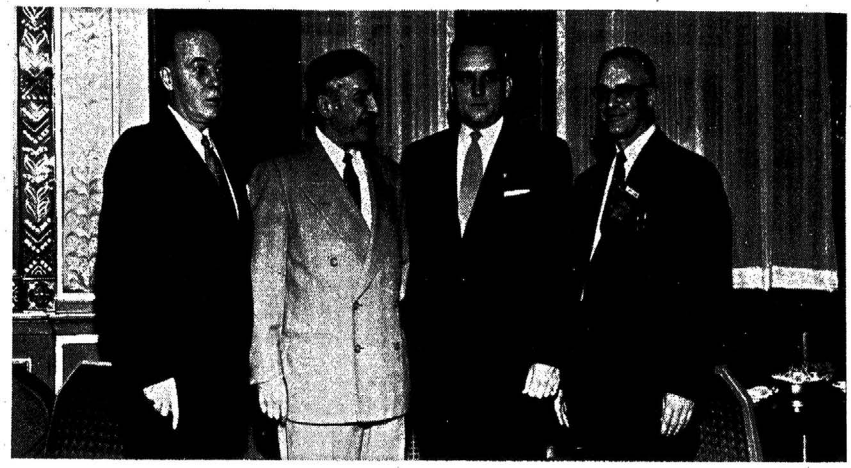

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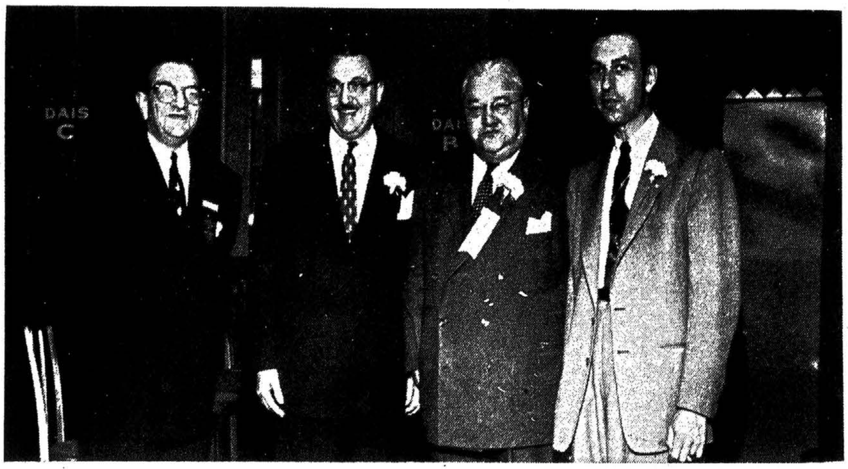

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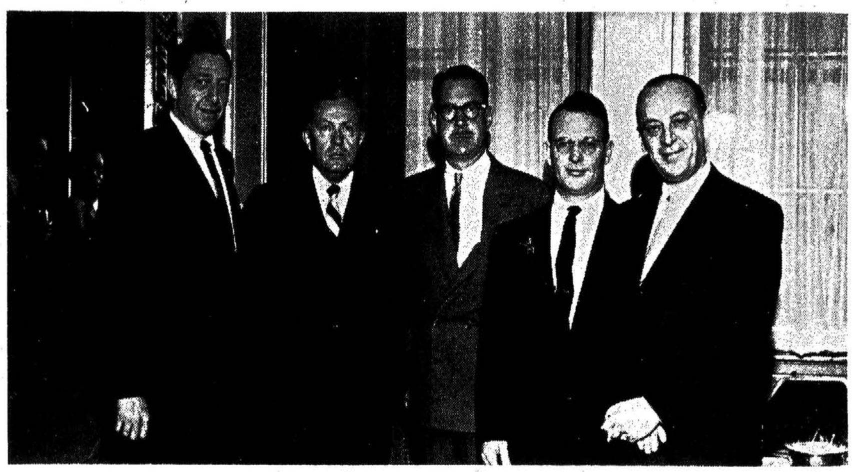

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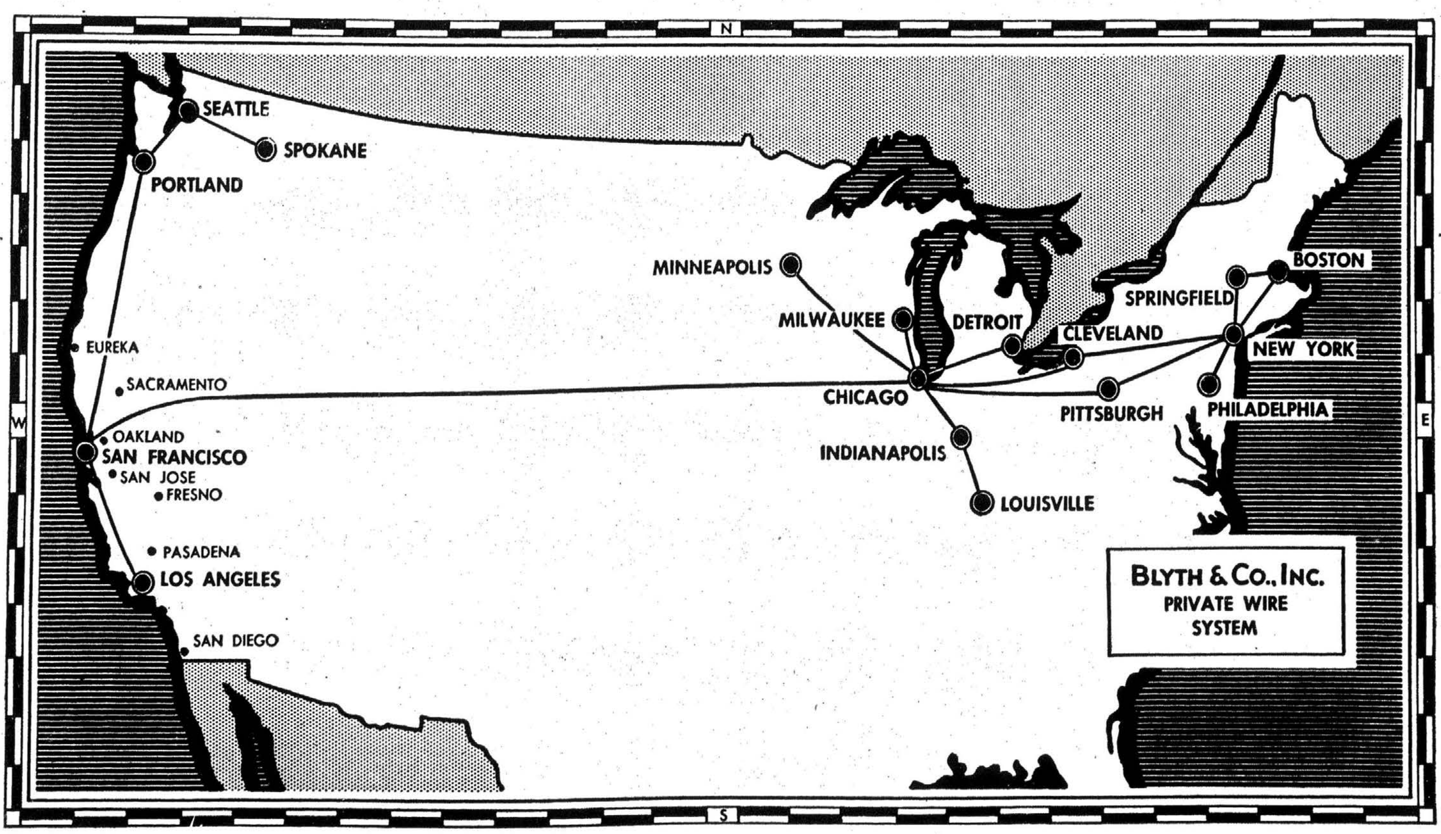

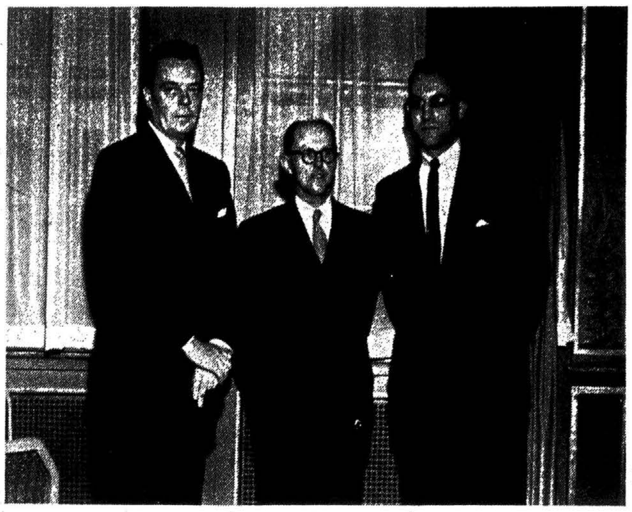

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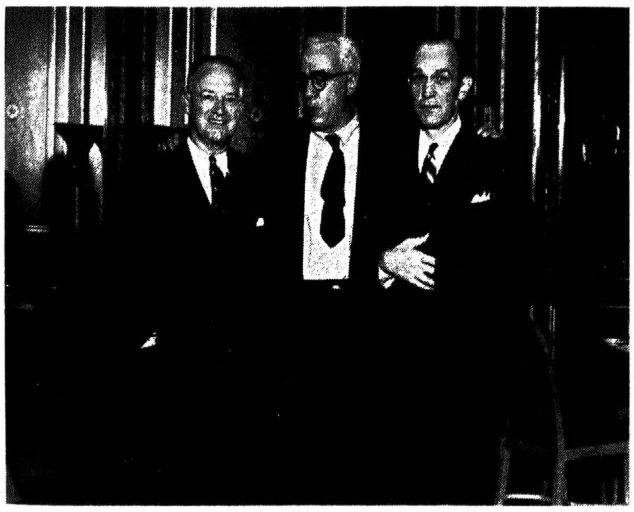

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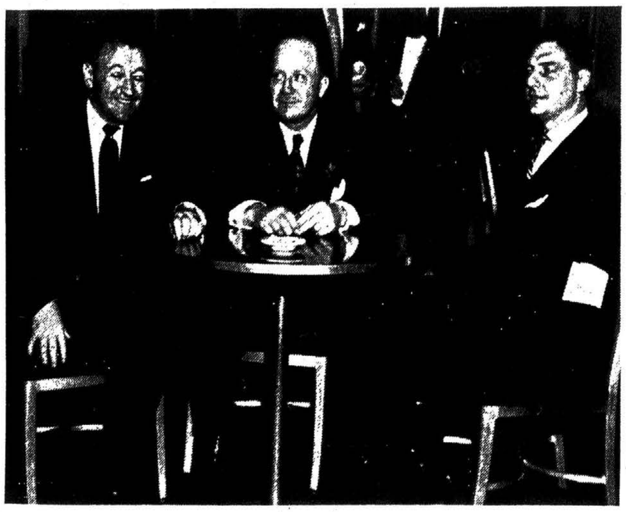

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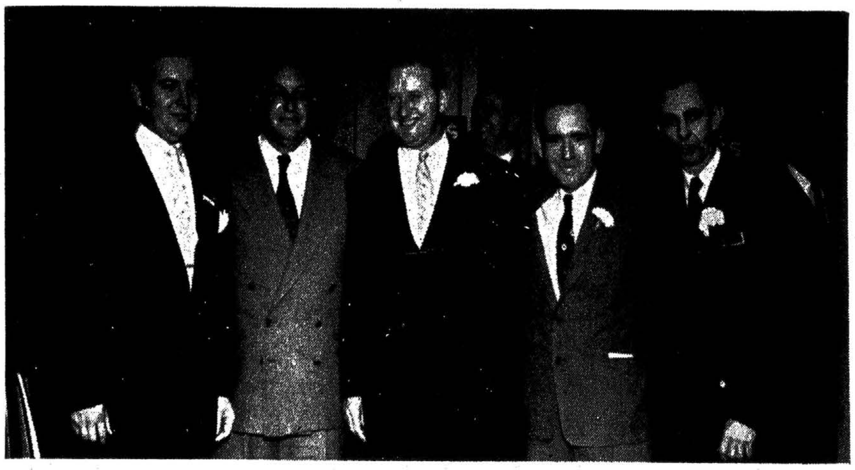

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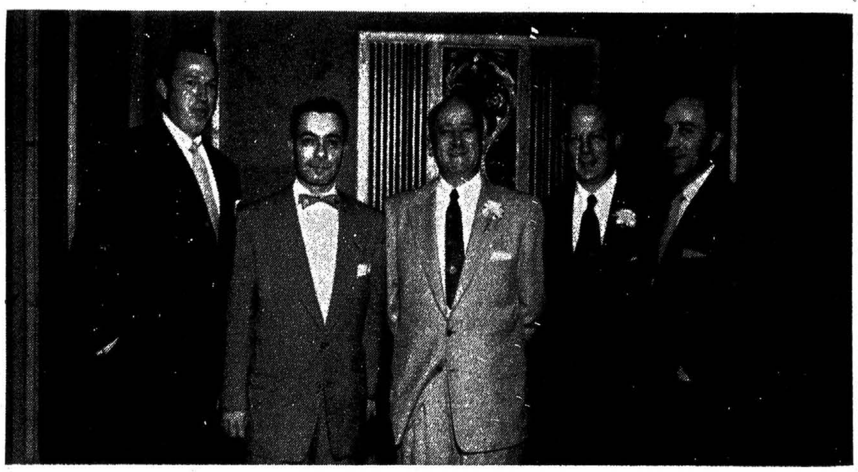

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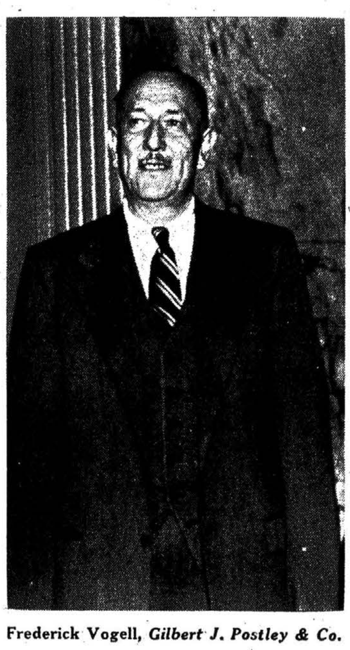

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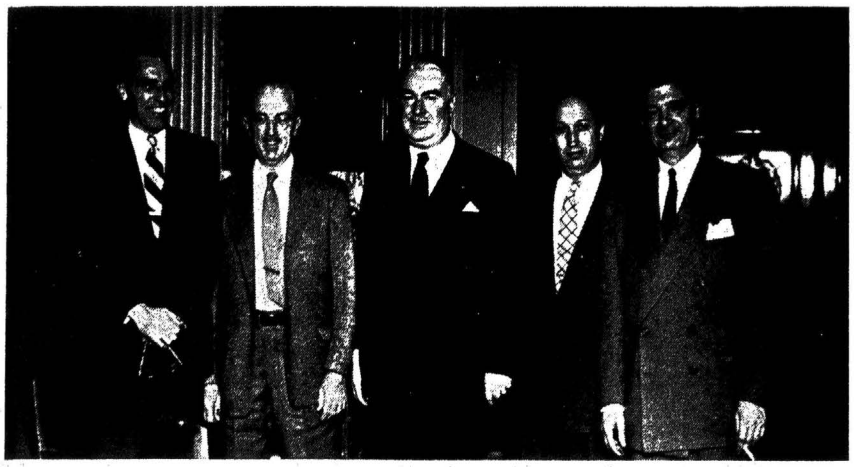
Daniel G. Mullin, *Tucker, Anthony & Co.;* John Meyers, *Gordon Graves & Co.;* Henry Oetjen, *McGinnis & Company;* Charles Zingraf, *Laurence M. Marks & Co.;* Arnold J. Wechsler, *Ogden, Wechsler & Co.*

James Brennan, *J. G. White & Company, Incorporated*



Paul Bodine, *Drexel & Co.;* Leonard Kearney, *Salomon Bros. & Hutzler;* Frank C. La Grange, *La Grange & Co.;* Frank Laird, *Stroud & Company, Incorporated,* Philadelphia; Samuel H. Rosenberg, *Asiel & Co.*

Walter Gutman, *Goodbody & Co.;* Frank E. Pozzi, *Smith, Bishop & Co.,* Syracuse; Edward J. Bullock, *Reid-Bullock Co.,* Syracuse; E. Sharpe, *Goodbody & Co.*

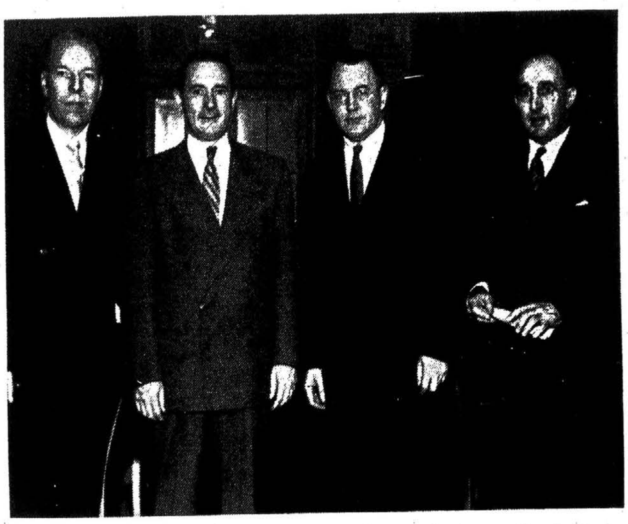
H. Sheldon Parker, *Kay, Richards & Co.,* Pittsburgh; Irving Maxfield, *Cohu & Co.;* John Bair, *H. M. Byllesby and Company, Incorporated;* Connie Sheridan, *Mitchell & Company*

Lester Gannon, *Peter Morgan & Co.*

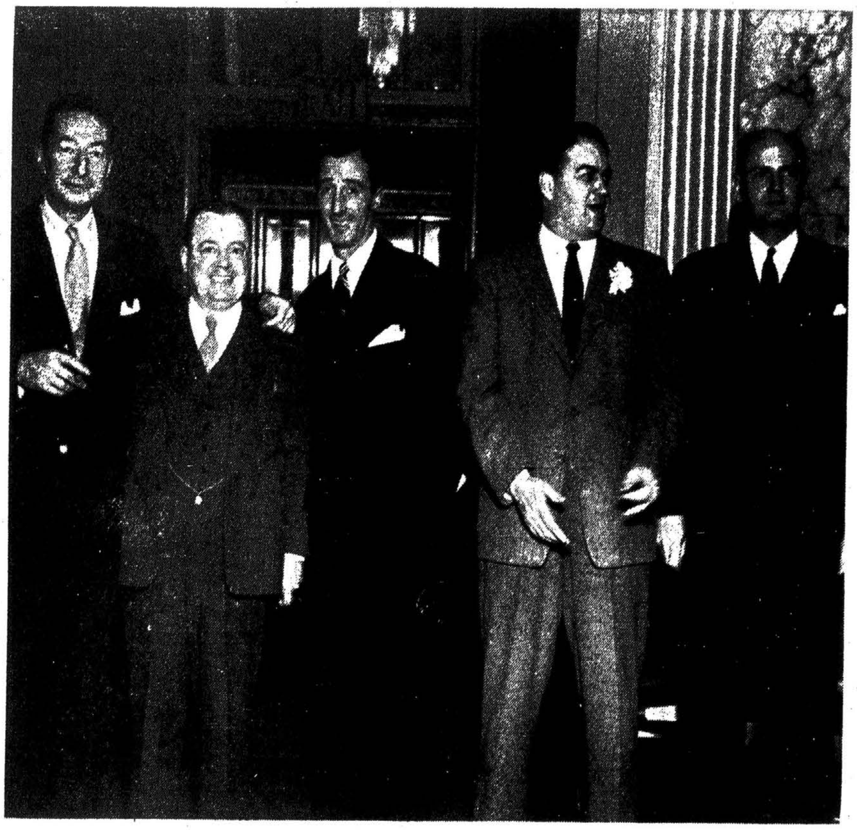
Fred Fischer, *H. N. Nash & Co.*, Philadelphia

Leo Dubey, *Cooley & Company*, Hartford; Mrs. & Mr. John H. Kugel, *Kugel, Stone & Co., Inc.*

Walter Haubert, *Jesup & Lamont;* Pete Brochu, *Allen & Company;* Thomas J. Hickey, *J. W. Sparks & Co.;* Walter Holder, *Chase National Bank of the City of New York*



William Fleckner, *Merrill Lynch, Pierce, Fenner & Beane;* Frank Kane, *Ernst & Co.;* Walter Kane, *Shearson, Hammill & Co.;* Jim Waters, *First Boston Corporation*



Henry Loeb, *Carl M. Loeb, Rhoades & Co.;* John Flynn, *E. W. Clark & Co.,* Philadelphia; Ed Kelly, *Carl M. Loeb, Rhoades & Co.;* Bill Tooker, *Salomon Bros. & Hutzler;* Jesse Gram, *Johnston, Lemon & Co.,* Washington, D. C.

Irving Wasserman, *Bond, Richman & Co.;* John Laver, *Hunter Securities Corporation;* Bob Strauss, *Daniel F. Rice and Company,* Chicago; Joe McNamee, *Hopper, Soliday & Co.,* Philadelphia; Robert Herzog, *Herzog & Co., Inc.*

F. J. Smith, *J. G. White & Company, Incorporated;* Tom Bailey, *Wertheim & Co.;* David Wittman, *Stanley Heller & Co.;* John Laughlin, *Ungerleider & Company;* Joseph Corby, *Allen & Company*

Reg. Knapp, *Wertheim & Co.;* Jack Conlon, *Eastman, Dillon & Co.;* Sid Jacobs, *Sidney Jacobs Co.;* H. W. Putnam, *Association of Stock Exchange Firms*

Sal Rappa, *F. S. Moseley & Co.;* Robert M. Topol, *Greene and Company;* Nat Krumholz, *Siegel & Co.;* Tom Greenberg, *C. E. Unterberg & Co.;* Bernard Weissman, *Siegel & Co.*

Edward Schwenk, *Chase National Bank of the City of New York;* Merritt Coleman, *Allen & Company;* Barney Baker, *Chase National Bank of the City of New York;* Tom Worthington, *Tom Onderdonk Company*

Joseph Mangeat, *Orvis Brothers & Co.;* Victor Tournet, *Orvis Brothers & Co.;* Jack Fant, *Penington, Colket & Co.,* Philadelphia; Richard Baer, *L. F. Rothschild & Co.*

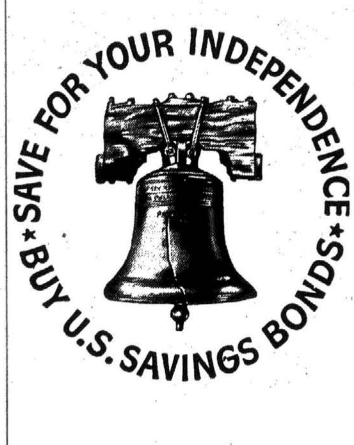
W. F. Haubert, Jr., *Jesup & Lamont;* E. Donnelly, *Jesup & Lamont;* Eddie Opper, *J. B. Maguire & Co., Inc., Boston;* Murray Stillman, *Abraham & Co.*

Martin King, *Sutro Bros. & Co.;* Charles Stevens, *L. H. Rothchild & Co.;* Arthur C. Murphy, *A. C. Allyn and Company, Inc.,* Boston; Frank Harrington, *H. D. Knox & Co., Inc.,* Boston

Julius Golden, *Greene and Company;* Irving Greene, *Greene and Company;* Al Tisch, *Fitzgerald & Company, Inc.;* Dave Mitchell, *Hill, Thompson & Co., Inc.*

Bob McCarthy, *First Boston Corporation;* M. Love, *Barr Brothers & Co.;* Bob Hearty, *Chase National Bank of the City of New York;* Charles Eddy, *New York Trust Company*

Nat Greene, *D. H. Ellis & Co.;* Berton Godnick, *Godnick & Son;* Jim Kelly, *Tifft Brothers,* Springfield, Mass.; Jerry Hulsebosch, *Godnick & Son*



Nat Birnbaum, *Birnbaum & Co.*; Percy J. Wien, *M. S. Wien & Co.*; Mel Wien, *M. S. Wien & Co.*; Charles Euler, *Euler & Hart*, Philadelphia; Bob Hart, *Euler & Hart*, Philadelphia; Robert Franklin, *M. S. Wien & Co.*

Coit Williamson, *Schmidt, Poole, Roberts & Parke*, Philadelphia; Samuel Stedman, *Carl M. Loeb, Rhoades & Co.*; Allan Watts, *W. L. Lyons & Co.*, Louisville; Jules Fellegi, *Farwell, Chapman & Co.*, Chicago; Ernest Megna, *Carl M. Loeb, Rhoades & Co.*; Sidney Feiner, *Carl M. Loeb, Rhoades & Co.*

Jack Germaine, *Singer, Beane & Mackie, Inc.*; Frank Smith, *J. G. White & Company, Incorporated*; Steve Blanchard, *Schwabacher & Co.*; Herman Frankel, *Singer, Beane & Mackie, Inc.*; Robert A. Mackie, *Singer, Beane & Mackie, Inc.*

Securities Salesman's Corner

By JOHN DUTTON

They Don't Know!

Did you ever sit down and think about how little you know concerning your health, your teeth, your radio or television, your car and almost everything you use and own? Yet, you go to the doctor, follow his prescription and sometimes let him cut you belly open. **You don't try to make the incision, and do the job yourself.** You wouldn't try to fix your car or your radio, not if you were an average bumble-head at these things like most of us. Yet, day after day people will tell you that they would like to take a day or two to think things over when it comes to making a decision regarding the investment of their funds. I've had this happen to me after I had done business with people for several years. You would ordinarily think that by this time they would be ready to accept suggestions and be done with it. But that would be too easy for them. They had to "hem and haw" and **make me sell them.**

There Are People who Want to Make You Work

Taking time to make decisions is a good trait to have. But if you don't have the facts nor the specialized knowledge that is needed to interpret the facts, isn't it just plain common sense to go to some one that does? Most people who buy securities do not have the facts nor do they have the training to make decisions. Some investors know this. Many do not. There are also people who just "want to be sold." There are also some who are congenial worriers. Both have to be treated differently.

This is the way it works with those who want you to earn your commissions. They will let you explain an offering. You can show them the reasons for the purchase. Then they will ask you some questions — sometimes relevant and other times not. Then they will say, "Alright, tell you what you do. Let me think about it for a while and I'll let you know." Meanwhile the market may take an upward shoot and when you finally go back they will find out that you have to ask them a point or so more for the same security. This brings up some more "hemming and hawing" and if you get the order you probably make only a half of what you should have made, if you would have sold them when they should have bought. Besides they must pay a higher price caused by their delay. (If you have been the victim of this peculiar faculty of stocks to go up after you have advised their purchase and a delay has taken place, as often as I have, you'll know what I mean.)

This sort of situation happens far too often. But I have discovered that there are people who buy in this way. It is their set routine. Occasionally you can go over things with and force a decision, but education is a slow process. It is sometimes better to know your customer than to try and change his buying habits.

The Worrier Can Be Changed Into a Good Client

The person who worries presents a different problem. Here is where you can educate. The only reason these people procrastinate is that they lack confidence in **you.** Sometimes this is caused by unpleasant investment experiences in the past and, at other times, it is due primarily to a lack of knowledge. Sell yourself by taking the attitude that you are capable, efficient, and that you know your business. Explain things simply by using illustrations and by leaving out all the statistics, facts, and rig-a-ma-role that is contained in the offering circular and prospectus. Talk generalities and you do the leading. **Don't be indecisive!** Be interested, friendly and sincere. Take the position of your doctor who is also a friend. If you have such a man you are lucky. That is the way investors who worry want to feel about someone who will help them find peace of mind concerning their finances. You write the prescription and stick to it. When one of these worriers starts to procrastinate step in and make up their minds for them. That is the only way you can ever control the account. If you do this it will pay you both in personal satisfaction and in respect to the compensation you so well have earned.

Duryea Nominated By N. Y. Bond Club

Wright Duryea of Glore, Forgan & Co., has been nominated for President of The Bond Club of New York for the coming year to succeed Joseph A. W. Iglehart, of W. E. Hutton & Co. The election and annual meeting will take place in connection with the Bond Club Field Day on June 5.

Ranald H. Macdonald of Dominick & Dominick has been nominated for Vice-President to succeed Mr. Duryea. Ralph Hornblower, Jr., of Hornblower & Weeks has been nominated for Secretary and Dean Witter, Jr., of Dean Witter & Co., for Treasurer.

Nominations for new members of the Board of Governors are H. Lawrence Bogert, Jr., of Eastman, Dillon & Co.; Hudson B. Lemkau, of Morgan Stanley & Co., and Edgar J. Loftus, of R. S. Dickson & Co.

The Field Day, to be held at the Sleepy Hollow Country Club, Scarborough, Westchester County, will be enlivened by many "Special Events" in line with Field Day tradition.

In addition to a quintet of Hawaiian Hula girls, there will be strolling musicians to entertain and distract the bond men as they engage in their annual golf, tennis and horeshoe pitching tournaments, speculate on their own Stock Exchange and bet on the races at the Sleepy Hollow Raceway. A barbecue luncheon and a buffet supper will be served on the Golf House lawn surrounding the swimming pool.

Field Day Chairman, Edgar J. Loftus, R. S. Dickson & Co., Inc., will direct the events with the assistance of four general chairmen and 14 committees.

NYSE Elects Crooks For Third Term

Richard M. Crooks was elected to serve his third term as Chairman of the Board of Governors of the New York Stock Exchange. Annual elections have been held since 1817 when the Exchange then in its twenty-fifth year, adopted a formal constitution.

Richard M. Crooks

Mr. Crooks, a partner of Thomson & McKinnon, was first elected Chairman in May, 1951, and served as President and Chairman until Sept. 10, when Keith Funston assumed his duties as President. He was re-elected in 1952.

Mr. Crooks has been a member of the Exchange since 1941 and a Governor since 1946. He is 47 years old and lives at 12 Westminister Road, Summit, N. J., with his wife and four children.

Members of the Exchange also elected ten Governors to the 33-man Board, Two of whom were re-elected to fill vacancies created by expired terms. In addition two Trustees of the Gratuity Fund, which pays death benefits to families of deceased members, were re-elected and a Nominating Committee for 1954 was chosen.

New York City Governors included: Robert Bennett Berman, of Neuberger & Berman; Jean Cattier, White, Weld & Co.; Rowland H. George, Wood, Struthers & Co.; James Crane Kellogg, 3rd (re-elected), Spear & Leeds; Jerome W. Nammack, West & Nammack; Otto A. Schreiber (re-elected), Haydock, Schreiber & Co. and Edward C. Werle, Johnson & Wood.

Out-of-town Governors: Clarence A. Bickel, Robert W. Baird & Co., Milwaukee; Benjamin H. Griswold, III, Alex. Brown & Sons, Baltimore; John H. Hayward, Reinholdt & Gardner, St. Louis.

Trustees of the Gratuity Fund: Thatcher M. Brown, Brown Brothers Harriman & Co.; John M. Young, Morgan Stanley & Co.

The 1954 Nominating Committee: Charles K. Dickson, Auchincloss, Parker & Redpath; Thomas F. Fagan, Moore & Schley; Charles J. Hodge, Glore, Forgan & Co.; W. Fenton Johnston, Smith, Barney & Co.; Bernard Kalker, Brunner & Co.; William P. Marseilles, Jr., Murphey & Marseilles; Wickliffe Shreve, Hayden, Stone & Co.; Richard H. Smith, G. H. Walker & Co.; Leonard Wagner, Wagner, Stott & Co.

F. Levy Opens

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Frederick Levy, Jr. has opened offices at 3335 Wilshire Boulevard to engage in a securities business.

With Marache, Dofflemyre

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—William E. Donovan and Dix C. Logan have become affiliated with Marache, Dofflemyre & Co., 634 South Spring Street, members of the Los Angeles Stock Exchange. Mr. Donovan was previously with J. A. Hogle & Co.

Merrill Lynch Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Albert M. Hooke is now with Merrill Lynch, Pierce, Fenner & Beane, 523 West Sixth Street.

Railroad Securities

Southern Railway

Railroad securities continue pretty much to lead the stock market. Consistently when signs of uneasiness have appeared in the general list, and when concern over the intermediate term economic outlook has caused a wave of selling, it has taken independent strength in the carrier shares to turn the tide. This is hardly surprising in view of the favorable trend of railroad earnings in the face of lower traffic volume in the opening quarter and accruals for retroactive wage increases in March accounts. Moreover, the outlook continues promising for further earnings gains. Traffic in recent weeks has been running ahead of year-earlier levels, and on April 1, there was a cut of three cents an hour in wages because of the change in the cost-of-living index. The maintenance of high earnings, in turn, is considered in many quarters to foreshadow some important increases in dividend payments this year.

One of the best acting of the railroad stocks, and one which is attracting more and more institutional interest and confidence, is Southern Railway common. The stock did prove quite vulnerable to the "peace" selling of a few weeks ago but the wave of selling was short lived. The subsequent rebound was substantial and rapid, and by last week the shares were again selling within striking distance of the year's high. There are a number of fundamental reasons that fully justify the resurgence of investment confidence in Southern Railway. For one thing, the lines of the company literally cover the south and this is one of the best growth territories in the country. Secondly, it is generally conceded that the company now has its debt problem pretty well in hand. Investors are no longer concerned over the 1956 bond maturities. Finally, operating efficiency has improved materially in the past couple of years and there are ample indications that this favorable trend has not yet run its full course.

Southern Railway has been almost completely dieselized. A substantial amount of new rolling stock has been purchased. Roadway property has been improved, with heavier rail being installed on main lines, grades and curvature being reduced, etc. The company has gone in heavily for mechanization of maintenance work. A comprehensive program of yard improvement and modernization is now under way. Much has already been accomplished in bringing the property up to peak efficiency but there is considerable work still to be done. It is felt, therefore, that the full potentialties for operating savings have not as yet been realized. With the long-term traffic prospects for the territory viewed as exceptionally good and the likelihood of further paring of expenses many rail analysts are confident that the trend of earnings will continue upward for some time to come.

By last year the company had reduced its transportation ratio to 32.6% which was about two points below that of the preceding year and well below the industry average of 36.9%. Other expenses were also under strict control despite the property and equipment improvement programs and the profit margin (the percent of gross carried to net operating income before Federal income taxes) soared to 23.2%. The profit margin of the class I carriers as a whole last year was 16.0%. Reflecting this improvement in the operating performance, earnings on the common stock in 1952 jumped to \$19.13 a share compared with \$12.21 a share earned in 1951. The current year has started out exceptionally well. Revenues for the opening quarter were approximately \$2.4 million higher than in the like 1952 interval. The transportation ratio was cut by another four points, to 30.6%, and the overall operating ratio was almost seven points under that of a year ago. As a result, common share earnings climbed to \$5.53, compared with \$2.94 in the March, 1952 quarter, which was more than sufficient to cover the full annual dividend. Many analysts are now estimating that for the full year earnings may reach \$24.00 which might well justify an increase in the present \$5.00 dividend rate.

Boston Analysts to Hold Annual Meeting

BOSTON, Mass. — The Boston Security Analysts Society will hold its annual meetaing and New England Regional Meeting on Thursday, June 4th at the Harvard Club of Boston, Beginning at 2 p. m. On Friday, June 5th, field trips in the Providence area will be conducted under the auspices of the Providence Society of Financial Analysts.

Speakers on June 4th will be Roger F. Murray, Bankers Trust Company, New York on the "Outlook for Money Rates and Fixed Income Securities"; Walter C. Voss, Massachusetts Institute of Technology, on "Significant Trends in Building Construction and their Effect on the Building Materials Industry"; Walter Maynard, Shearson, Hammill & Co., New York, on "Which Industries and Stocks Today"; John Walsh and C. J. Matthew of Arthur D. Little Company, Cambridge on "Developments and Prospects in the Plastics and Fertilizer Chemical Fields."

Cocktails will be at 5 p.m., dinner at 6 p. m. Guest of honor will be Leonard F. McCollum, Continental Oil, who will speak on the "Continental Oil Story."

Dewar, Robertson Opens Austin Branch

AUSTIN, Texas—Dewar, Robertson & Pancoast, members of the New York Stock Exchange, have opened a branch office in the Brown Building under the direction of Felder Thornhill. Mr. Thornhill was formerly with Spencer Trask & Co. of New York.

Research, Religion and Peace

By ROGER W. BABSON

Mr. Babson, asserting possibility of World Peace and a foundation for the Kingdom of God is being built up by teachers, scientists and investors, points out we have to thank the big corporations as well as small businesses employing only a few men for research that has led to recent progress. Concludes only Research and Religion can prevent World War III.

Inquiries constantly come to me asking for some way to prevent more World Wars. Instead of answering these letters personally, may I give my answer in this week's column?

Roger W. Babson

Ninety-five per cent of the politicians of every nation appear to believe that the only means of keeping their country out of war is to have a bigger army, a more powerful navy, a greater air force and the most atomic bombs. Of course, this is not the answer. It is like trying to cure an alcoholic by giving him more drinks.

In fact, 2,000 years ago Jesus stated: "For all they that take the sword shall perish with the sword." History shows this to have been 100% correct. Any reader who doubts this need only read the lives of the greatest military leaders such as Alexander the Great, Cyrus, Caesar, Genghis Khan, Mohammed, Ivan the Terrible, Cromwell, Napoleon, Bismarck and Hitler.

What Jesus Taught 2,000 Years Ago

Thereupon the preachers tell us that pacifism and disarmament are the answer, failing to talk about the Old Testament which was the only Bible that Jesus knew or used. When Jesus preached about "disarmament," He assumed that justice, mercy and intelligence would be substituted therefor. The fact is that if we read the books of the Bible in the order in which they were written, we see that Jesus was talking about the Kingdom of God based upon righteousness and fairness to all people.

Today, I see a possibility of World Peace. This will not be brought about alone by the priests and preachers, however earnest and necessary they are. The foundation for the Kingdom of God is being built by the teachers, scientists and inventors. These include mathematicians, physicists, chemists, metallurgists, psychologists and all others workng for humanity in the laboratories of every nation. These men and women are making discoveries which may assure the people of all nations health, intelligence, prosperity and happiness. These are the people whom Jesus would praise were He here today.

Whom Have We to Thank?

Strange to say, we have the big corporations—many of which the U. S. Justice Department is persecuting—to thank for the recent great progress. Last year, over $3,500,000,000 was spent in the United States alone on research to make the world healthier, more intelligent and happier. Two-thirds of this amount was spent by corporations whose stocks are traded in so-called "Wicked Wall Street." The remaining third consisted mostly of Government appropriations for which we may praise or belittle Franklin D. Roosevelt and his kind-hearted wife. But the corporations themselves did not make the discoveries—it was some of the 250,000 individuals in their employ.

The electrical machinery and aircraft industries each spent over $400,000,000 on research. The chemical industry which gave us the wonderful drugs that are blessing humanity today) and the motor vehicle industry each spent $200,000,000 on research. In addition, there are many private funds, such as the Rockefeller Foundation and the new Ford Foundation. Yale University has just set up a fund of $6,000,000 for research in connection with the mental cases which are flooding our hospitals and which many believe are as unnecessary as small pox and cholera plagues.

Opportunities for Small Businesses

Above I mention only big corporations, but I find that some of our most important discoveries have been by small businesses employing only a few men. Furthermore, I find that many of their humble workers just stumbled onto their discoveries while hunting for something else. Hence, in the last analysis, all our blessings have come from humble individuals, most of whom we have never heard of. Therefore, I use every opportuniity to appeal for the praying individual, whatever his race or color, whether rich or poor. Far too much attention is given by "educators" to "Ph. D.'s" and other degrees. In doing so, I believe they are retarding rather than advancing research.

Great changes are ahead. Whatever may happen during the next few years, I am a great optimist as to the future of our grandchildren. The atomic bomb is not going to destroy the world; it will free the world. It has already started a new line of thinking. We will enter a period when our newspapers will no longer feature "cold wars" or "hot wars," but will again feature new discoveries: Men like Caxton who pioneered the printing press (1475) which opened the minds of men, Eli Whitney who invented the cotton gin (1793) which developed a great export trade, James Watt (1769) and Isaac Merritt Singer (1851) who spurred the industrial development of the United States, Thomas Edison, Henry Ford and John D. Rockefeller who laid the basis for America's present prosperity. We also should remember Pasteur to whom we all owe much of our health and happiness.

Will We Have World War III?

World War I did not accomplish anything except to lead to World War II. Even this second World War, every nation lost. Yet we are now discussing World War III. Only Research and Religion can prevent World War III. If Communism had not denied God and Truth, it might now win; but having chosen the sword, it will surely die by the sword.

Our politicians foolishly talk about "Guns versus Butter." Instead, we should talk about "Guns versus New Ideas." For either of these to be useful, we are dependent upon humble individuals. Such people may be found in any community. We should encourage them, never laugh at them or ask them if they have a college degree!

Branch Carden Opens

ROANOKE, Va.—Branch Jackson Carden, Jr. has formed Branch Carden & Co. with offices at 2825 Jefferson Street to engage in the securities business. Mr. Carden formerly was a representative for Scott, Horner & Mason, Inc.

Continued from page 15

The Business and Money Market Outlook

realize how true this is. The argument has been presented at nearly every session that the demand for funds would tend to dry up and as soon as investors worked off their abnormally high commitments, the accumulation of new savings would result in sufficient demand for mortgages to reestablish the old pattern of rates. This was the major theme of several speakers at the Mortgage Bankers meeting in Chicago last fall who confidently predicted that by the spring of this year there would be a large amount of long-term investment funds pressing on the market to find outlets. As we all know, this has not occurred, and the money market today is tighter than it has been at any time during the last 20 years.

Looks for Higher Money Rates

In my opinion the upward adjustments in interest rates are far from complete in many areas of the money market. The Treasury recently made its first cash offering of long-term securities since World War II with a relatively small issue of one billion dollars of cash at 3¼% for 30 years. Despite the fact the issue was heavily over-subscribed and allotments were on the basis of 20% of subscriptions, the issue has not commanded a premium in the market. Consequently other government security prices have declined to new lows and the corporate security market has been extremely weak. Recent issues of good quality public utility bonds are selling in the market to yield investors better than a 4% return. Fully tax exempt municipal bonds are now available in increasing volume at rates which are attractive even to institutional buyers.

If the Federal Reserve continues on the sidelines and lets interest rates seek their own level in a free market, the prospective large volume of new issues of long-term securities points toward still higher yields. Moody's reported last week that some three-quarters of a billion dollars of new public offerings of corporates are planned between now and July. In this same period an even larger amount of new municipal securities will come on the market. This flood of new offerings will hit the market at a time when insurance company commitment accounts, including recent purchases of the long-term Treasury 3¼s which must be paid for by the end of July, are probably at an all-time peak. High business activity with a high price level simply requires a lot of money. Not only are capital expenditures high but working capital needed for inventories, receivables and taxes is far greater than business anticipated. To an increasing extent this money must now be raised from the long-term capital market as commercial banks are in an extremely tight position. Although life companies and other institutional investors are currently receiving a large amount of new money from current savings and loan repayments, much of these funds are already committed and their government securities are at prices where liquidation would involve substantial losses.

Thus for the next few months at least the pressure should be toward higher rates on all types of long-term securities, despite the fact that long-term rates have already advanced sharply during the past two months.

Rates on Mortgage Loans

Under these circumstances, current rates on mortgage loans appear definitely unattractive to institutional investors. As you all know, for sometime FHA and GI loans have been a drug on the market. In my opinion it is extremely doubtful that the change in rates just announced will now be sufficient to make such loans appealing to investors in view of recent and prospective changes in yield on other types of investments. In fact a gross rate of 4½% on GI loans and FHA loans will probably still mean a discount market on these loans. This is merely arithmetic: At a 4½% gross rate when we deduct ½% for servicing and add another ¼% for home office expenses, the net return is reduced to 3¾% without taking into account any lossses that may be involved in foreclosures and on FHA debentures which continue to carry an unrealistic coupon. This rate of 3¾% can readily be obtained and exceeded in today's market on quality bond investments.

Before proceeding on this subject I should perhaps make some reference to the situation at my own company. The Kansas City Life Insurance Company has been and will continue to be primarily a mortgage company. At the end of 1952 we had approximately 55% of our assets in mortgage loans and we have always operated through mortgage loan correspondents. Although we reduced the volume of our purchases of mortgage loans during the past three years we at no time completely withdrew from the mortgage market but continued to provide an outlet to our mortgage loan correspondents even if on a limited scale. We have done this for several reasons: (1) Our long run determination to stay in the mortgage field. (2) We desired to assist our mortgage loan correspondents as much as possible despite the fact that other avenues of investment were currently more attractive. (3) We felt mortgage rates would be adjusted to other investment opportunities more promptly than has proven to be the case.

I am calling our position to your attention to emphasize the fact that our company along with other life companies which are substantial mortgage lenders have much at stake in wanting to see that the mortgage market is not placed at a competitive disadvantage in attracting funds during this period of transition to free markets. We have a genuine interest in preserving the mortgage loan correspondent system and we do not want it jeopardized by government programs that price FHA and GI loans out of the institutional market. That is why I feel we should all be concerned about whether the recent increase in the maximum rates on FHA and GI loans is really adequate under present conditions. If, as I anticipate, there is going to be a further rise in yields on other types of investments the new rates on FHA and GI loans will not be attractive and even more insurance companies may be forced reluctantly to withdraw or curtail further their activities in these markets. Believe me when I tell you it becomes a little grim to apologize to your finance committee week after week when you present FHA and GI loans at yields below those obtainable on other types of investment. With rates going up generally I am afraid most investment officers will continue to be faced with the same dilemma despite the recent rate increases on FHA and GI loans.

For more insurance companies to withdraw from the mortgage market would be particularly unfortunate now since we would be in effect abandoning the mortgage market to savings and loan associations and others who, by making loans direct, can obtain fees, etc., which compensate them to some extent as compared to institutional investors who operate primarily through mortgage loan correspondents. We all know that mortgage bankers have in the past at least been the backbone of the FHA and GI markets and for them to be forced to turn these markets over to other investors merely because rates are frozen at unrealistic levels, either by law or by Administrative action of the government agencies responsible for these programs, would seem not only unfair to mortgage bankers, but also in the long run a disservice to home owners and veterans. Another possible and serious consequence if this occurs may be renewed pressure for a revival of FNMA purchases and of direct loans by the Veterans Administration.

Another surprising and discouraging development was the recent action of the housing administration in permitting smaller down payments and lengthening of terms on guaranteed and insured loans. In the present market, institutional investors certainly feel that substantial down payments and relatively short terms will continue to be necessary in order to make mortgage loans at all attractive in comparison with other investment opportunities.

Rates on FHA and GI Loans

In this era of a return to free markets perhaps the best solution to the problem would be to establish a relatively high maximum rate on FHA and GI loans, say 5%, and allow the market to set the rate on individual cases. This would probably result in certain sections of the country having the maximum rate while in other sections the going rate might be set at a lower figure. Individual borrowers might be able to bargain for rates below the maximum depending upon their equity in the property and their financial status. Also it would make possible loans in smaller communities where little if any money is now available through FHA and GI loans.

Adjustment in rates on conventional mortgage loans is also overdue. Rates on conventional loans have been held down during the last few months partly because of the artificially low rates on FHA and GI loans. Now that these latter rates have been raised we may anticipate an increase in rates on conventional loans by at least as much as one-half of one per cent. In view of other long-term investment opportunities there is no justification for a conventional residential mortgage loan to be made at a gross rate under 5% in today's market, and in most cases the rates should be higher. With real estate values and costs of construction at present extremely high levels, there is good reason for caution on the part of lenders. In the period ahead I believe you will see institutional investors introducing more stringent underwriting standards on conventional loans with a tendency toward reduced loan ratios and shorter terms of repayment.

In considering your future operations in the mortgage market the main point I want to emphasize is that a mortgage correspondent in these times should make every effort to obtain the type of loans that will be most acceptable to his institutional lenders. With the tightening money market, I think it is going to be easy to quote rates and terms on mortgage loans which borrowers will accept. On FHA loans currently submitted to us, for example, I have noticed that in most instances the borrowers have sufficient income to make higher monthly payments than are generally required. There should be little difficulty, therefore, in shortening the term on most mortgages provided the loan correspondents will take the initiative in doing so. Obviously there will be pressure brought by builders and by borrowers to obtain the lowest down payments and the longest terms possible. However, if money is not available on that basis I do not think you will lose much business by quoting rates, down payments and terms that will be acceptable to your principals. Actually a smaller volume of mortgage loans today but ones that are better underwritten may in fact turn out to be advantageous to all concerned. Loans that have larger initial equities and faster repayment schedules will be the ones that will require less trouble and expense to service in the future. Also the investors may be more willing to scale down payments on such loans when we encounter periods of economic distress, thus preserving your servicing income when you may really need it.

In summary and conclusion, let me repeat that the outlook for the money market is one of continued tightness. We have experienced a fundamental change in interest rates as a free money market has been reestablished. For the next few months at least there appears nothing in sight that can produce any easing of rates and probably the long-term trend will be toward higher rates also. There appears still further rate increases to be made in the corporate and municipal bond markets and mortgage rates in particular must move considerably higher to bring them into line with available yields on other long-term investments.

With this outlook, my advice to mortgage bankers is to be conservative in the period ahead. Even with the modest increase in FHA and GI rates, mortgage bankers should be extremely cautious in making commitments to builders and others for such loans. By all means, you should be sure any commitments you make are covered by firm commitments from your permanent investors to buy the loans when they are ready for closing. Mortgage bankers should strive harder to write their loans on a pattern of rates and terms that you think will be attractive to your institutional investors, bearing in mind other types of investments are likely to carry higher rates during the period immediately ahead. This involves seeking higher rates and shorter terms on all mortgage loans and on conventional loans writing in stronger prepayment restrictions and penalties.

If the mortgage bankers who are on the firing line will do their part I think there will be a good market for your mortgage loans with life insurance companies and other institutional investors. This is especially true for conventional loans. Merely because mortgage loans do not appear attractive in today's market does not mean insurance companies and others will permanently withdraw from the mortgage market. Those of us who have been aggressive in making mortgage loans in the postwar period are quite happy about our position today since we are receiving substantial principal payments on our mortgage loan portfolios which enable us to take advantage of the current higher rates for reinvesting these funds. Incidentally, it is especially gratifying in a period of this kind to some of us who have long argued we would have greater liquidity in our mortgage loan portfolio than in any other type of investment.

With this background most of us want to stay in the mortgage market but to do so we obviously are going to need a return from mortgages that is attractive in relation to other investments. If you as mortgage bankers can produce and offer loans on this basis, you may expect that life insurance companies will gradually allocate more funds to mortgage loans.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

William E. Marple, formerly Chief of the Credit Division, Credit Department, of the **Federal Reserve Bank of New York,** has been appointed a Manager and assigned to the Credit and Discount Departments, Allan Sproul, President of the Reserve Bank, announced on May 8. Mr. Marple succeeds Walter C. Warner, formerly Manager of those departments, who has resigned to accept appointment as an officer of the Bankers Trust Co., New York. Mr. Marple joined the bank's staff in 1943, and was assigned to the Credit Department. He thereafter served in the bank's Accounting and Personnel Departments, before his most recent service as Chief of the Credit Division.

Mr. Sproul also announced that Gregory O'Keefe, Jr., formerly an Attorney in the bank's Legal Department, has been appointed an Assistant Counsel of the bank. Mr. O'Keefe served in the United States Navy during World War II and, following his graduation from the Law School of Harvard University, joined the bank's staff in 1948.

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Walter Coyne Warner, who has been Manager of the Credit Division of the Discount Department of the Federal Reserve Bank of New York, has been elected an Assistant Vice-President of **Bankers Trust Company of New York,** it was announced on May 7 by S. Sloan Colt, President of the Bankers Trust. Mr. Warner began his banking career in 1929 in the Chase National Bank, where he was a credit analyst. He became associated with the Federal Reserve in 1942. He attended New York University School of Commerce, Accounts and Finance, and is a graduate of the New York Chapter of the American Institute of Banking.

* * *

J. Henry Schroder Banking Corporation and Schroder Trust Company of New York announced on May 11 the election of W. Donald Brown, Sherman Gray and John I. Howell as Assistant Vice-Presidents of both institutions. Messrs. Brown and Gray were Assistant Treasurers and Mr. Howell was Assistant Secretary.

* * *

On May 11 the Park Avenue Branch of **The National City Bank of New York** opened for business at its new location, Park Avenue near 59th Street, in the remodeled Park Avenue Theatre building. Since its establishment in 1925 the branch has been at the corner of 57th Street and Park Avenue. The move is a temporary one, pending completion of the new Davies office building at the 57th & Park Avenue corner, expected in 1955, when the Park Avenue Branch will resume its old address. Meanwhile, unusual architectural transformations have made the interior of the once select Park Avenue Theatre into a modern, air conditioned banking office. Reginald S. Wareham, who has been in charge of National City's Park Avenue Branch for the past 22 years, is Manager.

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George Trommer, Augustus C. Froeb and Michael C. O'Brien, trustees of the **Lincoln Savings Bank of Brooklyn, N. Y.,** were welcomed into the bank's 25-year club at its April dinner meeting. They were presented with appropriately inscribed watches by John A. Elbe, Vice-President and Cashier of The Lincoln. Mr. O'Brien, who, in addition, is a Vice-President of the Bank, was a former officer of the Church Lane Savings Bank which later became the Flatbush office of the Lincoln, through the merger of the Church Lane with the Lincoln. He is President of M. C. O'Brien, Inc., Brooklyn realtors. Mr. Froeb, a director of the Holland Laundry, Inc. and J. F. Douglas & Co., textile firm, is a son of Charles Froeb, now deceased, a former President and Chairman of the Board of the Bank. He is also active in real estate. Mr. Trommer is President of John F. Trommer, Inc., formerly the brewing firm, which recently was bought by Piel Bros. The dinner was presided over by Charles J. Kipp, President of the 25-year club.

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As a result of the sale of new stock to the amount of $62,500, the **Peninsula National Bank of Cedarhurst, Long Island, N. Y.,** has increased its capital, effective April 29, from $500,000 to $562,500.

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The merger of **The County Trust Company of White Plains, N. Y.,** with **The First National Bank of Croton, N. Y.,** became effective on the last day in April, according to a statement released by Andrew Wilson, Chairman of the County Trust board of directors. When the Croton bank opened its doors the morning of May 1 it did so as the 22nd office of The County Trust Company. The first major changes in service will be a boost in the interest rate paid on thrift accounts from 1% to 2%, and the installation of Charg-It, Mr. Wilson said. It is understood that William A. Ranney, Sr., President and director of the Croton bank, and his son, William A. Ranney, Jr., Vice-President and director, have announced their plans to retire from banking. Martin Miller, Assistant Treasurer of The County Trust Company, is temporarily in charge of the operations in the new bank. Plans for the proposed merger of the First National Bank of Croton with the County Trust Company were referred to in our April 30 issue, page 1867. On April 30 approval was given by the State Banking Department to plans of the County Trust Company to increase its capital stock from $3,100,000, consisting of 193,750 shares of common stock of the par value of $16 per share, to $3,202,000, consisting of 200,125 shares of the par value of $16 per share.

* * *

A stock dividend of $105,000 has brought about an increase in the capital (as of May 1) of the **Citizens National Bank & Trust Co. of Oneonta, N. Y.,** from $175,000 to $280,000.

* * *

The capital of the **First National Bank of Butler, N. J.,** has been increased from $106,000 to $129,850, the increase having been brought about by the sale of $23,850 of new stock. The enlarged capital became effective April 29.

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At a special meetng of the shareholders of **City Bank and Trust Company of Reading, Pa.,** held on May 6, the bank was authorized, subject to final approval by State and Federal banking authorities, to increase its capital stock from $300,000 to $450,000 by issuing 15,000 additional shares of stock of the par value of $10 each, for the price of $30 per share, of which $150,000 shall be allocated to the capital account and $300,000 to the surplus account. Shareholders of record May 15 will have warrants mailed to them on or about June 1, entitling them to subscribe to the new stock. No fractional shares will be issued. The warrants will expire on July 15.

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As a result of the sale of $125,000 of new stock the capital of the **Harrisburg National Bank of Harrisburg, Pa.,** has been raised to $500,000 from $375,000, the increased amount having become effective April 23.

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Effective April 25 the **First National Bank of Oil City, Pa.,** with common capital stock of $125,000, was placed in voluntary liquidation, the bank having been absorbed by the **Oil City Trust Co. of Oil City.**

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Thomas S. Estrem, Vice-President and Economist of **The Northern Trust Company of Chicago** retired May 1 under the bank's pension plan. He joined the Northern Trust Staff in 1921. Mr. Estrem graduate of the University of Minnesota and The Harvard Graduate School of Business Administration, had been Vice-President and Economist of The Northern Trust Company since 1934. John H. Wills, Vice-President and economist, will succeed Mr. Estrem as the bank's Senior Economist.

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The capital of the **Omaha National Bank of Omaha, Neb.,** has been enlarged as of April 21 from $4,000,000 to $5,000,000, through the sale of new stock to the amount of $400,000 and a stock dividend of $600,000.

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The name of the **National Exchange Bank of Augusta, Ga.,** has been changed, effective May 4, to the **First National Bank & Trust Co. of Augusta.**

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An addition of $150,000 has been made to the capital of the **American National Bank of Amarillo, Texas,** whereby the capital has become $750,000 as of April 20, as against $600,000 previously. The increase was brought about through a $50,000 stock dividend and the sale of $100,000 of new stock.

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On April 21 the **First National Bank of Santa Fe, New Mexico,** reported a capital of $700,000, increased from $500,000. Part of the increase was brought about by a stock dividend of $100,000, the additional $100,000 resulting from the sale of new stock.

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Holders of 83% of the capital stock of **California Bank, Los Angeles, Cal.,** have approved a proposal to split the stock on a two-for-one basis and to alter the preemptive rights of shareholders, according to Frank L. King, President. "It is expected that the necessary certificate of amendment to the articles of incorporation will be approved by the Superintendent of Banks and will be filed with the Secretary of State at the close of business May 15," Mr. King stated. "Upon filing of this certificate, the stock split will immediately become effective," he said. Holders of the present $25 par shares will receive two shares of $12.50 par. An item bearing on the split-up of the stock appeared in our April 30 issue, page 1867.

A. R. Weyer, Assistant Cashier and Manager of California Bank's Alhambra Office, recently completed his 35th year of service with the bank. Thirty years of service were recently marked by Assistant Cashier H. K. Rose of the Foreign Department; Harry S. Davidson, Manager, City Market Office; and P. V. Woodford of the Santa Monica Office.

* * *

Founder's Day was observed on May 6 in all offices of the **Bank of America National Trust & Savings Association of San Francisco** throughout the world. The day marked the 83rd anniversary of the birth of A. P. Giannini, founder of the Bank of America, which opened for business in 1904 in a small office in San Francisco, and today has 540 branches and total assets in excess of $8,000,000,000. The day's observance, under direction of the local managers, consisted of a brief ceremony before the offices opened to the public.

Ground was broken recently for construction of a new building for the Agana, Guam, branch of Bank of America. The structure will provide modern banking facilities for the Island, and represents an investment of approximately $200,000, according to officials at the bank's San Francisco headquarters. Taking part in the ground-breaking ceremonies were Ford Q. Elvidge, Governor of the Island, and Guy W. Wharton, Branch Manager. Acquired by Bank of America in June, 1950, through purchase of the Bank of Guam from the U. S. Navy, the branch serves all Island residents. Bank of Guam had been founded in 1915 by executive order of the local Governor, and had operated continuously up to the time of the Japanese occupation in December, 1951. Following re-capture of the Island by American forces, the bank was reopened and functioned for a time as a division of Guam's Naval Government.

$40,000,000 Central Bank for Cooperatives Debentures Offered

With the assitance of a nation-wide selling group of recognized dealers in securities, the Central Bank for Cooperatives, Washington, D. C., offered publicly yesterday (May 13) through Macdonald G. Newcomb, its fiscal agent, 31 Nassau St., New York City, $40,000,000 of collateral trust debentures dated June 1, 1953, due June 1, 1954. The debentures are not redeemable before maturity. The debentures bear interest at 2¾% per annum payable on Dec. 1, 1953, and at maturity. They are being offered at 99½% and accrued interest.

Net proceeds from the sale together with cash on hand are to be used to redeem the Central Bank for Cooperatives 2⅛% debentures which mature on June 1, 1953, and which are outstanding in the amount of $40,000,000.

The Central Bank for Cooperatives is incorporated under Federal law and operates under the supervision of the Farm Credit Administration, which is under the general supervision of the Secretary of Agriculture. The Bank makes loans to the larger farmers' cooperative associations and assists in financing the 12 regional banks for cooperatives. Central Bank debentures are instrumentalities of the Government of the United States, but the Government assumes no liability for them, either direct or indirect.

Bohannon Forms Co.

SPOKANE, Wash. — H. B. Bohannon is conducting a securities business from offices at 210 South Wall Street under the firm name of Mutual Funds Co. Mr. Bohannon was formerly with Foster & Marshall, Blyth & Co., Inc., and Edwin Lavigne & Co.

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Principles of Treasury Policy

paying more for the things we buy.

The other choice was to try to borrow from investors outside the banks. We explored that carefully. We canvassed the insurance companies, the savings banks, the pension funds—public and private—and other possible investors.

We found we could sell some long-term bonds—about a billion dollars worth—at a 3¼% rate.

We did not make the rate; that was set by the market. The reason it was as high as 3¼% is that last year and this year more people were trying to borrow long-term money than ever before in the history of the country. Rates have been rising for more than two years. The old law of supply and demand is forcing interest rates higher. Also, the Federal Reserve System, since it partially regained its freedom in 1951 has been keeping the money market tight.

This financing has been breaking new ground. The 3¼% bond was the first long-term marketable issue since 1945, and the first without Federal Reserve price pegs for a much longer period.

Three conclusions may be drawn. First, there is available a substantial amount of investment money which can be reached with a bond carrying a competitive interest rate. Even in the bill market the number of nonbank buyers has risen with the rate.

Second, the long-term market has been overloaded because too many people have been trying to borrow at the same time. A delay of some projects would be wholesome both for the market and the business situation. Time will be needed for absorption of the new issues. In the meantime the Treasury will proceed cautiously, though it should not always be at the end of the queue, and so forced into inflationary bank financing.

Third, the free rider, accustomed to pegged markets, had a wholesome lesson, but must be more carefully screened the next time.

Is There Danger of Deflation?

As to the timing of the issue, the question has been raised whether this long-term financing by the Treasury may not be a depressing influence at a time when there is danger of deflation.

While there have been declines in certain agricultural prices and, here and there, other weak spots in the economy, the fact remains that unemployment is at a minimum, the index of production made a new high record in the latest reported month, and personal income for the nation has reached a new high rate of $282,500,000,000 a year, and the cost of living is within 1% of its all-time high. Deflation is as yet a guess, not a reality.

The rest of the money we need before June 30 we are getting by selling more Treasury bills. Considerable corporation money is available to buy these bills and we hope a relatively small part will go to the banks.

One market not congested is that for U. S. Savings Bonds. They constitute one of the best ways of borrowing money for the Government. They are good for the borrower, too. The Treasury is grateful to savings banks and other organizations which are cooperating so vigorously in the sale of these bonds. It is largely through all of your voluntary efforts that we have $36 billion of E and H bonds outstanding today.

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Banking in the Transition Period

and particularly shortly after the outbreak of the Korean War which renewed with great intensity the forces of inflation.

At the time the accord was reached the country was in the midst of a serious inflation. Commodity prices and wages were rising and the volume of bank credit was increasing rapidly. More effective credit control therefore was essential. Following the accord the Federal Reserve credit control policy at first was neutral in character but gradually shifted to one of credit restraint. The Reserve authorities have not counteracted through open market operations all the forces that reduced reserve balances and hence the member banks became more and more dependent on the rediscount facilities of the Reserve Banks. This is evident from an analysis of the factors that create and reduce reserve balances. Thus during the 12-month period ending April 15, 1953, the holdings of government securities by the Reserve authorities had increased by $1.3 billion. During the same period the total volume of currency in circulation increased by $1.3 billion and the outflow of gold amounted to $731 million. The last two items therefore reduced reserve balances by $2.0 billion. During the same period excess reserve balances decreased by $656 million and member bank borrowings at the Reserve Banks increased by $883 million.

Not only did the Reserve authorities make the banks increasingly dependent on the rediscount facilities and raised the discount rate to bring this borrowing more in line with open market rates but as a result of this credit restraint policy there has been a considerable reduction in the liquidity of the member banks. This is indicated by the decline in the holdings of bills and certificates of all the reporting member banks during the year ending April 15, 1953, by $3,306 million.

The release of the Federal from the obligation to keep government securities pegged was automatically followed by a decline in prices of government obligations. For a time the Reserve authorities appeared to be interested in the movement of government bond prices particularly in periods of refunding and when the Treasury was in need of new money. During the last few weeks, however, with the development of the new Administration's economic policies, even this practice has been abandoned and government obligations now stand on their own influenced solely by money market and capital market conditions. As a result prices of government obligations have declined and yields have increased materially.

Impact on the Commercial Banks

The credit policy of the Reserve authorities has had a double impact on the commercial banks. The increase in rates of interest brought about an increase in earnings offset in part for some banks by the increase in rates required to be paid on their time deposits. At the same time the rather sharp decline in prices of government obligations, medium- as well as long-term, caused substantial depreciation in the banks' bond portfolio. Since all high-grade bonds that are purchased by commercial banks moved in the same direction as government obligations and some groups such as the tax-exempts witnessed an even larger decline, the depreciation is a matter of some consequence. Not only did government security prices witness a material decline but their marketability was proven to be less than originally expected. The impact of these developments on the future attitude of commercial banks and other investors toward government securities still remains to be seen.

The depreciation in the government bond account has caused considerable concern among bank managements. The question has recently arisen whether to hold onto these securities or take the loss and make a new start. Before reaching a decision on this question the following principles should be kept in mind: (1) Government obligations are the safest security available anywhere. While they are now subject to considerable fluctuation they remain riskless assets as regards the payment of principal and interest. (2) No well-managed bank is ever in a position where it is compelled to sell medium- or long-term government obligations in order to meet its liquidity requirements. (3) Government obligations, as in the past, so in the future, will reflect business and money market conditions, and once business activity turns downward a change in the credit restraint policy of the Reserve authorities is to be expected. Money rates will be lower and bond prices higher.

Appraisal of the Credit Policy

The credit policies followed by the Reserve authorities during the last two years have been sound. So long as the country was confronted with the danger of inflation and the integrity of the dollar and its purchasing power were threatened it was essential that an effective credit control policy be adopted. In doing so the Reserve authorities have merely followed sound central banking policy and endeavored to achieve the aims for which the Reserve System was established.

The question, however, arises whether it is advisable to continue the present policy of credit restraint much longer. Economic conditions today are entirely different from what they were in March, 1951, when a more effective credit control policy was adopted. The forces of inflation are rapidly receding. In fact the major danger of inflation stems from the actions of the government in its support of prices of farm products and in its inability to balance the budget. It is unusual that during the greatest boom in peacetime the Federal Government should operate with such a large deficit. The total volume of bank deposits during the last few months has decreased. On April 15, 1953, the total volume of adjusted demand deposits of reporting member banks in leading cities were $1,106,000,000 smaller than at the end of the year. The volume of bank credit is not being abused and it is doubtful whether general credit control is the appropriate instrument to retard the growth of consumer and mortgage credit. These latter can best be regulated through qualitative and not quantitative credit control. Moreover, the rather sharp increase in mortgage indebtedness was to a considerable extent fostered by government policies. A dynamic competitive economy continually undergoes readjustments, but if the Federal Reserve authorities continue with their present policies and particularly if these are supplemented by a strong anti-inflationary debt management policy they will accentuate the decline in business activity which is bound to come once the present forces making the boom have run their course. If a change in the credit restraint policy occurs before a business decline becomes quite evident it will have an effect on public psychology and on business sentiment. If it comes too late the effects of such a change in policy may be largely lost.

While the policy of establishing a free government bond market except in periods of emergency is desirable yet the Reserve authorities cannot overlook the fact that the public debt is huge, that a large portion of the government obligations is held by the financial institutions and that a large decline in prices on a small volume removes from government obligations the attributes of relative stability and marketability. These attributes were at least in part responsible for the yield differential between government and other high-grade obligations.

Debt Management

Debt management is also exercising and will continue for a long period of time to exercise a considerable influence on business activity as well as on the affairs of the banks. The previous Administration was primarily concerned with keeping the debt service at as low a cost as possible. Realizing that pegging of government obligations by the Reserve Banks was inflationary in character the Treasury as well as the Reserve authorities gave considerable thought to the problem of insulating the government bond market from the rest of the money and capital market in order to keep the yield on government bonds low and to prevent money market conditions from influencing government obligations. None of the various proposals made ever materialized.

The previous Administration was rather sensitive to the fluctuations in government obligations. It felt that it had a responsibility toward those who bought these bonds at par and the Treasury endeavored to prevent these securities from going below par. The insistence by the Treasury that the Reserve Banks peg government obligations was motivated at least in part by this desire. When the accord was reached on March 3, 1951 the Treasury offered to exchange certain 2½% issues into longer-term 2¾% nonmarketable obligations. Although this raised the rate of interest the Treasury felt that through this measure the holders would be in position to increase their return on government obligations and since they were not marketable they would show no depreciation.

The Debt Management Policy

The debt management policy of the new Administration is (1) to lengthen maturities as far as possible and thereby reduce the volume of the floating and short-term debt; (2) to pay a rate of interest on its securities which would attract short-term as well as long-term investments; (3) to compete aggressively for funds in the market with private borrowers. To judge from the experience of the last few months the Treasury does not seem to be interested in the cost of carrying the public debt and it apparently does not feel any concern if the bonds which it offers sell below the original issue price. The February refunding by the Treasury clearly indicated that the market as a whole was not interested in buying medium-term bonds even though they were properly priced. Later developments indicated that the appraisal of the market was correct because the 2½% bonds of December, 1958 were a few weeks later selling at a rather substantial discount for such a short-term obligation. The announcement of the Treasury that it will offer 3¼% 30-year obligations clearly indicated that the debt management policy of the Administration was anti-inflationary in character. By offering a 3¼% issue the Treasury not only hastened the decline in prices of outstanding government bonds but also brought about a general increase in long-term interest rates. Since the volume of funds seeking an outlet in long-term bonds is limited by the savings of the people the appearance of a new competitor for long-term funds means not only higher rates of interest but also that some marginal borrowers may not be able to obtain needed funds or that the rate of interest may be too high for them. The Treasury, as is the Federal Reserve, is motivated by the very laudable intention of keeping the integrity and purchasing power of the dollar and preventing a further increase in the level of commodity prices. The Treasury can through its debt management policy exercise quite a deflationary influence on business activity particularly if the issues are intended to bring about a reduction in the volume of bank deposits. The present Treasury management, however, is too skilled and too experienced to adopt methods which would harm the economy.

It goes without saying that future Treasury offerings in refunding maturing obligations as well as in raising new money will have an impact on prices of all high-grade bonds and thus affect the portfolios of the commercial banks. In this connection one should bear in mind the following: (1) The Treasury is not interested whether the bonds it sells will shortly thereafter be at a premium or at a discount. They have adopted the policy that market conditions should determine bond prices. This indicates that government bonds can fluctuate more widely than was the case some time ago. (2) The new debt management policy based on the desire to lengthen maturities and to have all government obligations fully marketable clearly indicates that there will be an additional supply of medium- and long-term government obligations available for purchase by the banks.

Conclusions

As in the past, banking in the future will be strongly influenced by business activity, the credit policies of the Reserve authorities, and the debt management program of the Treasury. While business is in the midst of a boom which may last for several more months, there are indications that it is coming to an end and will be followed by a period of transition marked by keen competition and possibly by inventory losses and smaller unit profits.

The time to make preparations for a downward readjustment is when the economy is strong and changes can be effected without harm to lenders or borrowers. Since the volume of consumer and mortgage credit has increased considerably and it is evident this rate of growth cannot continue and that a decline is bound to affect business activity, it would be advisable for the banks and other lenders to adopt voluntary credit restrictions similar to those which existed when Regulations W and X were in force. Such voluntary control would not only prevent losses later on but also would make it unnecessary for the Reserve authorities to continue to follow the present credit restraint policy.

The restrictive credit policy of the Reserve authorities will in itself contribute to the termination of the boom, and a truce in Korea together with a general improvement in international political conditions would also hasten its end. As a result of the credit restrictive policies the liquidity of the banks has been materially reduced and their indebtedness to the Reserve authorities has increased to a level exceeded only in 1920.

The new debt management policy of the Treasury, which is designed to lengthen maturities of government obligations and to compete aggressively for long-term and short-term funds in the open market, has contributed not only to the tightness of the money market but has also accelerated the decline in prices of government obligations. The rather sharp decline in prices of government securities on a relatively small volume has deprived Treasury bonds of their former attributes of relative stability and marketability. This, in turn, may induce some institutional investors in the future to give preference to AAA corporate bonds instead of governments since the yield on the former is higher.

The commercial banks throughout the country can learn important lessons from the new credit and debt management policies. They must lay greater stress on liquidity in order to make sure that they will not be forced to sell medium- or long-term government obligations to meet their liquidity requirements. Under the new policies not only will there be greater fluctuations in prices of medium- and long-term government bonds but their marketability, at least for the time being, will be limited. There is, however, no need to take a panicky attitude toward long-term government obligations because of the recent drastic price decline, and certainly there is no need to take losses. Money market conditions, as well as credit and debt management policies, will be determined in the future by the business situation. When the present boom terminates, as it will in the not-distant future, not only will there be a somewhat reduced demand for credit but it is highly probable that the credit and debt management policies will undergo a change. It is to be expected that the changes in credit and debt management policies will take place immediately on the first signs of a change in the business pattern. If prompt measures are taken they can exercise a considerable influence on the psychology of consumers and business management. If, however, a change in the credit and debt management policies occurs after a definite downward trend has already set in, then the change in policy may have little effect on business sentiment.

Geary Director

The election of Alfred H. Geary of Philadelphia to the Board of Directors of the Bettinger Corporation was announced by Robert A. Weaver, Jr., President of Bettinger Corporation, Waltham, Mass.

Alfred H. Geary

Mr. Geary is associated with the brokerage firm of Auchincloss, Parker and Redpath. He formerly was President of the Independence Shares Corporation in Philadelphia, and is still a director of this investment concern. A member of the investment business since 1926 and a graduate of Harvard, the new director is a native of Philadelphia.

The Bettinger Corporation is engaged in the manufacture of porcelain enamel building and housing materials, enamel appliance parts and highway, street and railroad signs. It has also been one of the leaders in the development of high temperature ceramic coatings for jet engine parts.

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Observations . . .

sively that stockholders of Montgomery Ward have every reason to complain.

The foregoing has been in the nature of criticisms and to a certain extent might be brushed aside with the well-known observation that "hindsight is better than foresight." Our purpose in writing to you at this time is to make a few suggestions which, if carried out, we believe would correct some of the effects of the past policies of the management of Montgomery Ward. Briefly, these are as follows:

(1) We think that it is absolutely unthinkable that a corporation as large as Montgomery Ward can expect to survive and progress under a policy of one-man management. Regardless of what excuses may be offered, the record speaks for itself; Montgomery Ward has not been able to retain men of executive caliber in its top management. This is a most serious deficiency which must be corrected immediately. From our long-range viewpoint, it seems that many capable executives have left the employ of Montgomery Ward because of the fact that they were not permitted to exercise normal management prerogatives. This is highlighted by the fact that you have recently lost a Vice-President in charge of sales who gave as his reason for resigning, among others, the fact that he was not permitted to make commitments for anything more than the sum of $2,500. We think this is utterly ridiculous for a company of the magnitude of Montgomery Ward which has assets of over $700 million and is doing an annual sales volume of more than one billion dollars.

(2) Of equal importance in holding and attracting men of ability to the management of the company is the necessity of an incentive program. Men who receive high cash salaries pay a good portion of same to the Government in taxes. A profit sharing or stock incentive program, which is practically invited by present Federal income tax laws, would be a major factor in enabling you to hold the right type of management personnel.

(3) If Montgomery Ward & Company is still committed to a policy of awaiting a depression, then we believe the stockholders should be so advised and there should be some statement of what will be done if and when a depression does occur. We think it would be wholly unwise for the corporation to continue to accumulate funds without any specific program for the ultimate disposition of such funds. For example, do you have new store locations in mind? Do you have in mind the construction of any particular type of facilities? Do you contemplate participating in the great growth of Canada?

(4) If you have in mind the accumulation of certain reserves for the long-awaited depression, don't you think it would be a good idea to state the limit, if any, on such reserves? At this particular time, it seems to us that your net working capital of about $570 million represents far more than would be needed under almost any conceivable circumstances. We can't help but feel that you have provided excessive reserves and now is the time to consider releasing some portion of such tremendous funds for the benefit of the stockholders, which is covered in Step No. 5.

Stock Buy-in Urged

(5) We note that some $232 million of your current assets is invested in short-term U. S. Government securities which provide a yield of about 2%, on which you pay Federal income taxes, thereby reducing the effective yield to less than 1%. It seems to us that some portion of this money could be utilized far more effectively in the acquisition of your outstanding common stock either by open-market purchases or by requesting tenders at a price, for example, of $70 per share. Such a program would be beneficial in that it would reduce the share capitalization and thereby permit larger earnings on the remaining shares. We can't think of a better way for a corporation to invest its excess funds than in the acquisition of its own shares at less than the equivalent net working capital per share and substantially less than its indicated book value of $89.75 per share. Furthermore, there would be no Federal income taxes payable on such purchases assuming that the shares were retired. Your stock is yielding much more in dividend income than that which you are now getting from your Government securities.

Why not consider the segregation from your net working capital of some $70 million to be used for the purchase in the open market or by tender, whichever method would be more appropriate, of one million shares of your stock up to but not more than $70 per share? You would still have net working capital of more than $500 million. This would reduce the outstanding shares to 5,502,378. Net earnings for the year ended Jan. 31, 1953 of $49,593,351 would be equivalent to $9.00 per share instead of the $7.41 which you showed on the 6,502,378 shares then outstanding. Furthermore, you would be saving dividends in the amount of $3 million a year which would be equivalent to a return of about 4.3% on the $70 million that would be invested to purchase said one million shares of stock. Looking at it still another way, the common stockholders would benefit to the extent of $19,750,000, the difference between book value of $89.75 per share and purchase price of $70 per share, or about $3.60 per share on the remaining shares then outstanding. It seems to us that a stock repurchase plan would certainly restore real value to the stockholders any way you look at it and it would be particularly more preferable to the further accumulation of cash from which you can earn little more than 1%.

(6) While Mr. Avery personally is a substantial stockholder of Montgomery Ward, it is our understanding that the management represented by officers and/or Directors hold in the aggregate a very small total of the outstanding shares. Under these circumstances, the opportunity exists for individuals to buy in the shares of Montgomery Ward at its present large discount from net working capital and book value and gradually acquire a larger interest than that now represented by the management, in which event it is entirely conceivable that there could be a concerted effort made to liquidate Montgomery Ward and thereby make a substantial profit. We want to emphasize that we know of no such moves in this direction but we have had similar indications with respect to other securities and it is entirely possible that the same individuals might become interested in Montgomery Ward for this purpose. At this point, we wish to state that Gerstley, Sunstein & Co. does not own any shares of Montgomery Ward beneficially. We are of the opinion that the stockholders will benefit more from operating Montgomery Ward as a going concern providing, of course, that the management does not continue its present policy of simply accumulating cash at the expense of earnings and market appraisal. However, if the alternative is between a continuation of the present policies and a liquidation at $89.75 per share or better, we believe that many stockholders would prefer the latter course.

We have no present intention of being represented at the annual meeting on April 24 next. However, if you are really interested in getting the views of independent stockholders, we would be pleased to have one of our partners present these proposals from the floor.

Very truly yours,
GERSTLEY, SUNSTEIN & CO.
(Signed) By: Thomas J. McCann
Partner

Mr. Avery interrupted the reading at the part of the letter referring to the competitive record (with Sears Roebuck), to offer a long presentation of his corporate, fiscal, and political philosophies. He is still most definitely expecting a major depression. He does not propose to build any new stores until construction costs come down from their present level of about $14 per square foot to $3. For many years a predicter of dire things for the country, he reiterated this political-economic keynote: "We have got to stop monkeying with paper dollars. We have got to stop interference by labor. We are threatened with terrible stupidity and viciousness. Our whole future is threatened by this very terrible situation."

Fright in the Second Row

Management's negative reactions then promted this comment from a stockholder (female):—"Mr. Avery, as a stockholder I accepted your invitation to attend this meeting. I took a seat in the front row so I wouldn't miss anything. You frightened me so I moved to the second row. Before the meeting is over I may be in the back row. But if you decide not to answer the charges which Mr. McCann has made, I can only feel you are dictatorial to the stockholders as well as to the officers." [Applause—the only applause of the meeting.]

Thereupon Mr. Avery complained of "unjustified denouncement," with this obsequious curtain line: "I hope you stockholders will think me less devilish than I have been made out, although I am not beautiful."

Mr. McCann offered two resolutions for a vote. The first, a suggestion for a management incentive plan, was ruled out of order as interfering with the directors' prerogatives.

The second resolution formalized the suggestion to retire up to one million shares of stock at not more than $70 per share. This was first decisively passed by the attending stockholders, but thereupon defeated by management on a re-run vote which included the proxies.

Protestants' Voting Policy

The "protesting stockholder," Mr. McCann, voted affirmatively for his resolution. However he voted the proxies of his clients in favor of the management and for the new directors as named in the proxy statement. While his firm owns none of the stock beneficially, some observers are surprised at the apparent inconsistency, on the one hand, of his critical view of management; and on the other, at his failure to persuade at least some of his clients to express opposition in the proxies which they entrusted to him.

Such inconsistency is in line with the policy of mutual funds in not voting at all on behalf of their own stockholders even after they have made the most searching accusations of management abuse. This disfranchisement of beneficiaries is defended by brokers as well as fund managers on grounds of preserving the company's good will and hence their channel of information; and also to some extent in subservience to the "if-you-don't-like-it-sell-your-stock" theory (actually akin to "if you don't like your United States, move out").

In any event, and apart from the merits in the Ward situation, this year's meeting season reveals corporate democracy as ever further on the march!

Hall & Hall Add

(Special to THE FINANCIAL CHRONICLE)

FRESNO, Calif. — Albert E. Chaddock has been added to the staff of Hall & Hall, Bank of America Building. Mr. Chaddock was formerly connected with Danforth Field Co.

With William R. Staats

(Special to THE FINANCIAL CHRONICLE)

SAN JOSE, Calif.—Herman E. Aulmann, Jr. has become associated with William R. Staats & Co., First National Bank Building. Mr. Aulmann was formerly with Boettcher and Company in Denver.

With Comstock & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — William M. Walsh has become affiliated with Comstock & Co., 208 South La Salle Street. He was previously with Cruttenden & Co.

Cruttenden Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—George F. Sutherland has been added to the staff of Cruttenden & Co., 209 South La Salle Street, members of the New York and Midwest Stock Exchanges.

A. C. Allyn Reports On Operations

CHICAGO, Ill.—A. C. Allyn and Company, Incorporated, 122 South La Salle Street, established new highs in 1952 in customers served, underwritings, earnings and capital, the annual report of this Chicago-headquartered investment firm discloses.

A. C. Allyn

Combined capital of the firm and its affiliate, A. C. Allyn & Co., which holds memberships in the principal securities exchanges, totaled $10,141,011 at the close of 1952, compared with $8,096,564 a year earlier. This increase placed the organization among the few investment firms with a capital in excess of $10,000,000.

Net income for 1952 was reported as $2,464,153. A year earlier net income was $957,989. Total combined assets amounted to $21,115,888 at the end of 1952.

The firm's participations in 1952 underwritings amounted to $74,893,630 up from $63,872,625 a year earlier. The 1952 total was divided $43,550,630 in corporate issues and $31,343,000 in municipal issues. The total value of all underwritings in which the firm participated in 1952 increased to $3,674,870,409 from $2,284,690,122 in 1951.

During the year "we enlarged the scope of our activities by becoming the underwriter for Concord Fund, Inc.," A. C. Allyn, Chairman, pointed out. The report, marking the firm's 40 years of operation, reviewed developments in municipal, utility and industrial financing and also trends in investor service. In addition to Chicago, the firm maintains offices in New York and Boston and 20 other cities.

To Be Bull, Holden Partner

John A. Dyer will acquire membership in the New York Stock Exchange on May 21 and on that date will be admitted to partnership in Bull, Holden & Co., 14 Wall Street, New York City. James C. Gilheany is retiring from the firm on the same date.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The Government market has shown rallying tendencies now and then, and there are reports that the volume of activity has been increased. However, despite the somewhat enlarged volume, the market for Government obligations is still a restricted affair except for the near-term securities which continue to have a sizable demand despite the larger offerings at intervals of Treasury bills. Because of the uncertainty which surrounds the money markets there is no change in the liquidity preference which seems to have spread to institutions (that have funds to invest) other than those in the deposit banking field.

Because of the successful flotation of the New York State Thruway bonds last week, coupled with reports that Government trust accounts were in the market buying the higher yielding issues, as well as certain state funds, prices were able to move ahead somewhat. The market is waiting now for the June refunding announcement and unless something new comes into the situation, a backing and filling operation within a limited price range is expected.

The results of the tight money policy of the monetary authorities are being felt very effectively throughout the entire money market, and there will have to be either higher rates of interest paid for borrowings unless the demand for funds declines, or there will have to be an increase in the supply of funds available for investment. From all indications there are no signs yet that borrowers are not going to continue to seek money in the market even though one recent borrower did see fit to reject bids for an issue of bonds because of the high rate of interest it would have had to pay.

Danger of Tight Money Policy

The powers that be seemingly are still of the opinion that the inflation bias is strong enough to keep the pressure on the economic system through the medium of a tight money policy, in combination with a debt management policy that adds force to it, in the form of higher interest rates. There is no doubt at all but what the monetary authorities, in carrying out their policies, can in time break the inflation trend. However, the big point of concern at the moment among well informed followers of the money market is whether or not more damage will be done to the economy as a whole by the methods being used to bring to a halt the debt-created boom than is warranted. There is only a thin line of demarcation between the very peak of the upswing and the turning point which brings the scales sharply down in the opposite direction.

We have already witnessed a very sharp decline in the prices of all Treasury obligations, many of which have gone to all time low levels. There has certainly been substantial deflation in prices of the longer-term Government bonds, which is not exactly heartening to the owners of these securities, mainly the smaller banks. If the current course of tight money and higher interest rates are carried on as vigorously as they have been, then much lower prices are to be expected for the outstanding marketable obligations. The short-term rate as well as the long-term rate would have to seek higher levels under this program.

May Ease Money Market Pressure

However, is it likely that the Treasury and the Federal Reserve authorities will continue to keep the pressure as strong on the money markets as it has been in the past? Well informed sources are of the opinion that some let-up in the restraint on the money markets is to be expected in the near future. It is pointed out that a fairly sizable refunding must be undertaken the first of June, and this will most likely take in the June 15 maturity. Moreover, unless there are some changes in policy, there will be no extensions of maturities and there may also be very heavy attritions in the refunding operations because the owners of the maturing obligations will have to take cash in many instances in order to improve their liquidity which has deteriorated very sharply in the past months.

The money markets have been given a real scare and it will take considerable time for this to be overcome. Investors along with "free-riders" have been hurt in the operation and it seems as though the methods used by the powers that be in handling new money offerings could be changed. The small 10% initial down payment for a new Government bond appeared to be an open invitation to everyone to come in and take advantage of the offering. Then the trap was sprung and all alike were caught in it. The raising of the prime bank rate during the closing week of the offering of the 3¼s to the holders of the 1953 maturities of the F and G savings bonds, and the resultant decline in price of the not yet paid for new 30-year bond below the issue price of 100, did not look like exactly good business. There appears to be little question but what the break in price of the 3¼% bond under par while the offer was still open to the holders of F and G savings bonds had some adverse effect upon this refunding operation, which was nothing to be elated about based on the figures given out by the Treasury.

J. L. Walton Reopens

BELLINGHAM, Wash. — J. L. Walton & Co. has opened offices in the Bellingham National Bank Building to conduct his own investment business under the firm name of J. L. Walton & Co. Mr. Walton formerly had his own investment business and has recently been resident manager for Walston & Co.

Opens Branch Office

Ira Haupt & Co., members of the New York Stock Exchange, have opened a branch office at 44 Court Street, Brooklyn, under the direction of P. Dino Gabriele.

Correction

In the "Financial Chronicle" of April 30, in reporting the association of Mrs. Harriet F. Ruehl with the Marshall Company, 765 North Water Street, Milwaukee, Wis., it was inadvertently indicated in the heading that Mrs. Ruehl had joined the Milwaukee Company. Mrs. Ruehl is with the Marshall Company.

With Slayton Co. Inc.

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, Mo.—Louis S. Block has joined the staff of Slayton & Company, Inc., 408 Olive Street.

Continued from first page

The Market Ahead

Defense intensified by an anticipated decline in all around business activity has been responsible for a temporarily bearish outlook by many investors and speculators. While a cutback in armament spending will have little effect on earnings for 1953, whenever the market is down it is customary to hear pessimistic talk about business. We have had many recurrent bearish opinions of this kind expressed on every market decline during the past two years and this one is no exception. This pessimistic and defeatist attitude has been reinforced by many advertised statistical factors, including the recent rise in prime interest rates and tight money, more favorable relationship of tax exempt bonds to after income tax stock yields, contracting profit margins in some industries, falling commodity prices, rising corporate and consumer debt, keener competition and the lag in sales vs. production as in the automobile field. Bear markets have never started when these above facts are so thoroughly known and widely publicized.

Bullish Factors

On the other hand, some equally convincing arguments for a bullish market attitude can be made such as the excellent first quarter earnings reports, anticipated lower taxes (especially the elimination of EPT) and the historically low dividend payment rate of less than 65% of earnings since the end of World War II. The ratio of stock prices to earnings is still relatively low, about 11.2 to 1; the average yield (Dow-Jones Industrials) is a generous 5.8%, and many stocks are selling below their quick asset value. It does seem probable that confidence in the new administration's more co-operative attitude toward business will eventually result in investors being willing to place a higher market valuation on each dollar of earning power than has prevailed in recent years.

Appraisals are always most difficult during these periods of psychological fears, doubts and uneasiness even though past history reveals that we seem to be able to discount these fears rather quickly and reconcile ourselves to a new viewpoint. Therefore, a close examination of the price action of individual stocks seems most necessary to the investor. Just six months ago, the Dow-Jones industrial averages were selling at approximately the current level. In rechecking the prices then and now, almost six months later, it is particularly interesting to note how extremely selective the individual price movements have been in this two-way market.

Divergence

For example, American Tobacco was selling at 59 and is now 74; General American Transportation then 56, now 71; Otis Elevator then 36 was recently 42; Texas Gulf Producers then 29¾ is selling at 53; Pepsi-Cola 9½ last fall now 14½; Carrier then 30 now 42, to name a few. Yet, several leading stocks dropped such as Standard Oil of New Jersey from 77 to 70; Chrysler from 86 to 79; Johns-Manville from 72 to 65 and Kennecott from 76 to 67. These few examples point to the fact that stock market price action is no longer all up or down at the same time and that the attention of investors should be encouraged to change their thinking to the price action and levels of individual issues rather than pay too much attention to the action of market averages.

Additional historical background reveals that in 5 out of the last 7 years when the market reached a low in March or April it was followed by a substantial upswing during the spring and summer months. Psychology can change quickly, and this year should be no exception, especially with favorable earnings indicated for at least the first six months. A further indication that recent weakness in the market is not a harbinger of a full scale bear market is the lack of any substantial speculative interest which historically enters a bull market, particularly in the latter stages. Two facts illustrate this lack of speculative interest—over 50% of the stocks on the New York Stock Exchange are now selling below their 1946 highs and have shown only relatively minor intermediate advances, whereas the Dow-Jones industrial averages comprised of the higher priced issues are selling 32% above the 1946 high. The lower priced secondary issues have usually appreciated between 2 and 4 times the percentage gain in higher priced ones before the end of previous bull markets which is far from the case today. In the last ten bull markets the industrial averages have appreciated an average of 122%. This bull market has appreciated only 83% since 1949. The overwhelming evidence is that we have had so far only a minority, not majority bull market, not only in individual stocks but on the averages, and that it has considerably higher levels to reach before making a major top.

Opportunities Ahead

The point of referring to this previous market history with a few figures and percentages is merely to prove that while the troublesome international situation may well continue to be a disturbing influence on our emotions, and in our confidence in the future of the stock market, we should realize that the times may be no more uncertain and that relative investment opportunities may be just as great as they were before. In general we have merely had a bull trend interrupted by an unexpected turn in the news and we must now face a new period of readjustment in our investment thinking as we have so many times in the past few years.

Several things seem apparent in analyzing recent market action. The technical picture of the market seems much stronger today than it was two months ago. Many stocks have had a substantial setback from their recent highs and appear in the process of reforming another base pattern before renewing their uptrend. The volume indications appear more favorable with recent selling drying up on each setback. This bottoming out process may take a little further time to consolidate and form, but the technical indications favor another important advance during the next two or three months which should recover most or all of the ground lost on the recent decline. This recovery in terms of the Dow-Jones averages should reach at least the 288-290 level on the industrials and at least 110-112 D.-J. on the rails. Also it is very much doubted, before this rise gets under way, that any further selling will carry the averages much if any below the recent low area at 270-272 on the industrials and 101-102 on the rails. Naturally another appraisal will have to be made if this prediction is correct, especially should either the rail or the industrial average fail to make a new high, but at this writing there still appears a good chance that sometime before the year-end the industrials are likely to cross 300, and that the rails may reach 118-120.

Specific Recommendations

No report on the market should end without specific recommendations and, as pointed out, this present market is not moving as a unit but has been full of divergent selective cross-currents for the past two years. The following groups of stocks and individual issues look partciularly attractive for purchase at present prices:

Steels: Bethlehem Steel, U. S. Steel, National Steel, Alleghany Ludlum and Youngstown Sheet & Tube.

Natural Gas: Shamrock and El Paso.

Airlines: United and Eastern.

Retail Trade: Montgomery Ward, Allied Stores, Federated Department Stores and May Department Stores.

Building: Flintkote, Armstrong Cork and National Gypsum.

Other stocks listed below, many of which give attractive yields (even in relation to higher interest rates), are projecting favorable price patterns for higher prices and should be carefully appraised and considered for purchase on further minor setbacks:

Great Northern Pfd.
Colgate-Palmolive-Peet
Combustion Engineering
Yale & Towne
Procter & Gamble
Ex-Cell-O
International Tel. & Tel.
Vanadium
Timken Roller Bearing
Joy Manufacturing
Safeway Stores
Philip Morris
Rayonier
Interchemical
Radio
Fansteel
Bendix
United Fruit
Lowenstein
Reynolds Metals
Mathieson Chemical
Lockheed
Western Union
National Lead
Blaw-Knox
Revere Copper & Brass

In considering all the pros and cons in this present perplexing period, it seems to this observer that an armistice in Korea will not begin to solve our many problems. An actual truce may result in further selling, but the market has already discounted this event pretty thoroughly. The present change-over from a partial war economy to more of a peace economy will tend to create many other uncertainties and problems which are likely to be with us for a long time. The skies will not clear up, but this should not breed passive or static thinking towards the stock market. It must be admitted that a little more careful shopping is necessary in the selection of stocks, but if we keep a long, not short-term perspective and exercise more patience, such a policy should pay off handsomely.

Managed Inv. Adds

(Special to The Financial Chronicle)

SAN FRANCISCO, Calif—Niel E. Compton and Edward H. Parsons have been added to the staff of Managed Investment Programs, 41 Sutter Street.

Joins J. C. Bradford

(Special to The Financial Chronicle)

ATLANTA, Ga. — James W. Hall Jr. has become affiliated with J. C. Bradford & Co., Rhodes-Haverty Building.

Apgar Daniels Adds

(Special to The Financial Chronicle)

CHICAGO, Ill. — Ernest R. Klose is with Apgar, Daniels & Co., 120 South La Salle Street, members of the Midwest Stock Exchange. In the past Mr. Klose was for many years with James H. Oliphant & Co.

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America Looks Ahead

a new budget of about $78,600,000,000. This is a colossal sum which staggers the imagination.

If a person born 1200 years before the American Revolution spent $100 a minute, 60 minutes an hour, 24 hours a day, 365 days a year, up to the year 1953, he would still not have spent an amount equal to the present budget request.

If we in the Congress authorize the money which has been requested, we would be another $10 billion in the red at the end of the fiscal year.

It is impossible to increase revenues without drying up the sources of the very revenues we are trying to secure. We Republicans, therefore, must cut expenditures.

It is pleasant after 20 long years to report that **expenditures are going to be cut.**

We have an economy-minded President, and an economy-minded Congress. We have the will to reduce expenditures, and **we will find the means.**

Already the following has been done:

(1) The President has reported that his preliminary estimate is that the budget can be cut $8,500,000,000.

(2) The first six departments of the Executive Branch to submit their budget requests have trimmed almost $500 million from the requests made in the last budget.

(3) The first 13 of the 56 independent agencies have reduced their requests from a budget which the old Administration said could not be cut.

(4) The first legislative act of the Republican 83rd Congress was to make a 56.5% cut in the Supplemental Appropriations Bill, resulting in a saving of almost $1,400,000,000 to the American people.

(5) The House and Senate Appropriations Committees are working in complete harmony to systematically and scientifically study the budget and to make every possible reduction which can effect savings without jeopardizing our national security or essential government operations.

Due to the fact that more than one-half of the budget, approximately $44.6 billion, are cash outlays which have to be paid on past obligations of the Truman Administration, the balancing of the budget this coming year presents a tremendous problem.

As the Secretary of the Treasury said recently:

"There is no easy way to correct our fiscal excesses of past years. We must stand and take it all along the line."

We have promised relief from the present taxation which is far too high. It is up to us to reduce expenditures so that taxes can then be reduced and our whole tax system revised to provide incentive for our people to expand and further develop our capitalistic system.

We will face strong opposition from what I choose to call the "economy butters." They are not all New Dealers and Fair Dealers, some of them are Republicans. They are the builders who wish economy in everything **but** the government loans to home-owners; the ship-owners who want economy in everything but subsidies to shipping concerns. the business men who howl when we cut the business statistics program; the farmers who want subsidies for planting what we don't need; the industrialists who want their aircraft and tank program to continue undisturbed, and so on down the line.

We have almost as many "economy-butters" as we have excess tons of butter paid for with your money which we may eventually have to throw away.

The Department of Agriculture, for example, paying one man $13,000 a year to study daffodils; how one department of government spends more to promote a National Cat Week, while another prepares bulletins on how to make Cat Traps to destroy cats.

I wonder how many American people want to spend two-million dollars to build elevators for sightseers at the Carlsbad Caverns. How many Americans want to spend $18,500 to innoculate 4,000 dogs in Mexico for rabies at the cost of $4.50 a dog.

Some progress has been made in eliminating useless government jobs. In the month of February 1953 alone, 7,800 government employees were dropped. The Army has announced it will reduce its civilian payroll by 20,000 on May 31st. The Treasury Department expects to eliminate 3,500 jobs within a few months. The Agriculture Department plans to trim its staff by 1,200. The announcement has just been made by the Civil Service Commission to the Congress of the United States that it expects a cut of a minimum of 240,000 people in the overall government payroll during the next fiscal year.

In connection with the staffing of government jobs, it is essential that the American people realize that the Democratic Administration took every step to freeze its irresponsible operations into law. Although we are supposed to be in control of the government, we find we can fill only a few of the top policy-making posts because the Truman Administration very cleverly used the Civil Service to blanket in hundreds of their friends who have no claim in principals to the policy-making jobs they hold. The President of the United States is presently reevaluating this situation to eliminate top policy-making jobs from the Civil Service protection to which they are clearly not entitled.

Perhaps the most significant evidence that there has been a change in Washington since the Republican Administration took over comes from the Department of Highways who report that since President Eisenhower was inaugurated and issued strict orders to government workers to be on their job on time, the morning traffic peak in Washington, D. C. has been 21 minutes earlier than during the Truman Administration.

The experience of the past four months indicates that Americans may confidently expect that the fiscal policies of this country will be put on a sound basis during the next four years. This means that "outgo" will be kept in line with income and that our entire tax structure will be revised so as to provide incentives for the expansion and development of our capitalistic system.

Inflation

Government spending and the economic excesses of the past twenty years were strong contributors to inflation and to the sharp rise in the cost of living. The result of these policies has laid heavily on the people who practiced thrift in their daily lives.

Under the new Administration a new credit policy emerges.

(1) We are reversing the attitude of government towards money and credit and placing the emphasis on free markets and individual business judgment.

(2) Instead of pegging the price of government bonds, we are allowing interest rates to fluctuate in a free market.

(3) We are attempting to shift the government debt to investors looking for long-term investments in order to minimize the inflationary nature of the public debt.

(4) The eventual abolishment of the RFC, and the withdrawal of the Federal National Mortgage Association gives proof that this Administration does not intend to be free and easy with the people's money.

(5) In seven orderly steps, President Eisenhower has removed controls of wages and prices, pointing a way to a freer national economy and allowing the normal law of supply and demand to operate.

(6) The Federal Reserve Board's reduction of margin requirements for stock transactions is another step in the direction of free economy.

For years our citizens have been told day and night by the socialistic propagandists that price and wage controls must stay and that their removal would destroy our economy.

We Republicans have faith in our economic system. We do not fear competition. As a matter of fact, competition has made our American system. As Secretary Humphrey pointed out, "More and better goods at less cost for more people is our national slogan."

In four short months we have removed some of the shackles from our free market economy, and I am optimistic that once again this system will show that it is the best yet devised by man.

As the new Administration controls inflation we may reasonably expect that there will be a more equitable return for invested capital, for savings, and for personal services. We optimistically anticipate a balance between labor and management that will return to each group a fair share of the rewards for their participation in our economy.

Miscellaneous

Time does not permit the complete review of the accomplishments of the new Administration in the first four months of its office.

(1) The Agricultural situation which we inherited was one of constantly declining farm prices. We have met the issue squarely and have put into effect programs to eliminate waste and to restore confidence among the farmers. Steps have been taken to prevent the spoilage and waste of farm commodities in storage. Many other forward-looking programs are being developed.

(2) In the Justice Department, as in all other departments of the new Republican Administration, there has been prompt and courageous action to clean up the mess which we inherited. Tax cases have been brought to trial, deportation proceedings have been instituted, commutation and pardons have been made a matter of public record.

(3) Instead of talking about the average man, our party has demonstrated that it does something about him by establishing the nation's 10th Cabinet post, the Department of Health, Education and Welfare.

(4) Despite the filibustering tactics of the opposition, the Republican pledge on tidelands has been kept and the remaining 10-point legislative program providing for reorganization of the government, appropriations, Hawaii statehood, Taft-Hartley Act amendment, limited extension of controls and allocations of critical defense material, extension of the Reciprocal Trade agreements, simplification of customs regulations, Social Security extension, school aid in critical areas, and provision for two additional Commissioners for the District of Columbia is now before the Congress.

The brief summary which I have given you of activities in various departments certainly leads to the conclusion that in the future we may anticipate the restoration of integrity and honesty in government. This is paramount if we are to progress as a nation. The confidence of our people must — and will be — restored.

Conclusion

The entire emphasis of the new Administration has been to reverse the trend of creeping socialism which had been engulfing our nation.

Freedom is a responsibility and not a privilege. A citizen in a free country has obligations which he cannot ignore, if he is to remain free and if he is to transmit to his children the heritage of freedom.

I have little patience with those who maintain that world peace would cause severe economic repercussions and possible depression in our country. We welcome peace. In my opinion our system does not need the artificial transfusions of warfare to keep economically solvent.

Give us peace and an opportunity to use our energy and talent for the production and distribution of consumer goods and we will expand our economy of abundance beyond any limits yet reached by mankind. Americans need not fear depression from this Administration.

The very name of your organization—Mutual Savings Association—embodies the fundamental concepts of the new Administration. By **mutual** endeavor on the part of all citizens; each contributing to the maximum of his capabilities; mutually sharing the sacrifices, the responsibilities and the rewards of good citizenship; we will save our resources, our material and spiritual blessings, and our freedom for those who follow us.

I pride myself on being a practical New England realist. I do not mean to imply that we can achieve the goals which we have established without patience, without courage, without hard work and without sacrifices.

The goals we seek, however, are worthy of the effort which we must make to attain them.

We are a nation, blessed above all with spiritual, material and human resources.

America can look ahead with optimism and confidence.

Chicago Analysts to Meet

CHICAGO, Ill.—The Investment Analysts Society of Chicago will hold a luncheon meeting May 14 at the Georgian Room, Carson Pirie Scott & Co. Stanley de J. Osborne, Mathieson Chemical Corporation, will address the gathering.

The Convention Committee, headed by M. Dutton Morehouse, Brown Brothers Harriman & Co., is asking suggestions from the members in connection with the forthcoming convention in Chicago.

Two With Harris, Upham

(Special to The Financial Chronicle)

SAN FRANCISCO, Calif. — Arthur G. Berger and James M. Cummings are now affiliated with Harris, Upham & Co., 232 Montgomery Street. Both were formerly with Davies & Co.

With A. M. Kidder & Co.

(Special to The Financial Chronicle)

ORLANDO, Fla. — Newton R. Black has become affiliated with A. M. Kidder & Co., 127 North Main Street. He was formerly with Thomson & McKinnon and Merrill Lynch, Pierce, Fenner & Beane.

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As We See It

nonetheless, the more so since it touches very nearly one of the problems involved in real reduction in the cost of operating the national government. It is this very large item of expenditures from previous appropriations, and the need of providing funds to finance contractual obligations duly incurred under authorizations previously made by Congress which render particularly difficult return to a balanced relationship between actual outlay and actual receipts next year—and, if due pains is not taken to forestall it, will remain to plague fiscal reformers in fiscal years to follow.

A Real Temptation

This lag between authorizing outlays or even appropriating funds for them, on the one hand, and the necessity of actually finding and providing the funds for them, on the other, is a phenomenon which exposes good fiscal management to one of the major and most notorious weaknesses of human nature. We have here something analogous to the "charge account" in personal affairs. It is, of course, more open to abuse in national affairs than in the affairs of the individual, since the individual, personally, must at one time or the other quite directly and obviously supply the funds to meet the charge, while in the case of government the relationship is far more indirect and less obvious.

The entanglements are greatly multiplied and intensified when those who manage the fiscal affairs of the nation persist year after year — we had almost said, decade after decade—in ignoring the consequences of buying profligately, and only later wonder or worry where the money is coming from. Precisely this has been the rule in Washington for two decades. So long has it been in effect that vested interests not only in largesse but in waste and inefficiency have developed in rich measure. Not only that but the great rank and file have grown so accustomed to this sort of thing, that any change appears abnormal and strange. More, perhaps than anything else, here is the source of major difficulty for the Eisenhower Administration and its effort to get us on a sound financial footing.

It is, of course, a task of titanic proportions to get such a program—or set of programs—as our defense plans on a solid footing of productivity and effectiveness. In the sense that private industry counts costs and efficiency, the task is probably beyond the reach of mortal man. Not only are the operations themselves of such magnitude and complexity as to defy full and effective control from the top, but other conditions at various points almost preclude the finely tuned planning common in competitive industry. The fact is, however, that we are now so far from any such goal that vast improvement is possible without ever reaching within miles of the standards which industry sets for itself.

How to Get Support

The problem is, however, less how a chief of defense might be able to improve procedures and coordinate activities to get better results, than it is how to get the driving force behind such an effort and win for it the kind of support from millions of people that is necessary if real success is to be reached. This is true enough of defense and defense-related areas; it is paramount almost in other segments of the management of our national affairs. This is true not only because the nature of many of the operations, particularly those of a non-defense nature, is less adapted to the type of cost control common in well managed business, but because the very objectives of these so-called "welfare" programs have become almost sacrosanct in the minds of the uninformed.

The fact that funds for much of all this are appropriated or authorized in one year and spent over a number of years well in the future, renders it much more difficult to get the people to come to grips with these underlying problems. It would, doubtless, be very helpful if, so far as feasible, this matter of continuing appropriations or of appropriating funds or authorizing funds for years in advance of the then current period, were to be abolished. Obviously, it could not be wholly done away with, or if it were, the effectiveness of the change would be something less than complete. This is true for the simple reason that it is often necessary either to plan a number of years ahead or not proceed at all. This is true particularly in the case of certain aspects of defense, where large time consuming construction must be undertaken or such projects as the building of capital ships is in question.

In other fields it is often necessary chiefly by reason of the extension of government into activities which traditionally in this country are or should be reserved for private enterprise. With a vigorous return to American traditions concerning the normal and legitimate sphere of activity of government, a substantial part of the need for the large commitments which tend to fix outlays for years in advance would disappear. This would, of course, leave us in a much more flexible situation. But without even waiting for any such change, Congress would do well to begin now to see what can be done to avoid tying the hands of future Congresses in this matter of future outlays.

Continued from first page

Is America Depression Proof?

books, which makes them perfectly safe from business cycles.

The more complex a social organization, the more sensitive it is. The essence of controlled or planned economies is: they eliminate a great variety of individual decisions, concentrating them in a central body or a single individual, more or less. Such a system is less exposed to the hot and cold winds of the cycle, but more so to "acts of God." In the last eight years, the United States and Canada suffered three minor setbacks which do not even qualify as recessions. By contrast, Europe went through three major crises and would have been visited by fuel shortage and famine had it not been for American rescue actions! On top of that, Europe still is dependent on the cycle—not so much on its own as rather on America's.

The Sterling Area with 650 million population is the world's largest store of natural resources. It has practically everything including know-how and equipment (at any rate since America poured into it untold billions). Yet, it slips from one calamity to another. Right now, it is on the verge of the fourth since the War. The Soviet empire is even more cycle-proof, never bothered by unemployment; its population merely languishes in perpetual squalor.

Business cycles are part and parcel of growth. Only economies which lack the impulses of progress are free from the repercussions which follow malallocations and misjudgments. Cycles have nothing to do with the "basic" structure or the long-run trend of the body economic; a healthy one may be, and often is, more formidably shaken that a sick system. They are short-run phenomena, but long enough for markets to crash.

Presently, the American economy is not only capable of "producing" a depression: it is also well prepared for it. Its condition in 1953-54 is fundamentally different from 1945-46 in spite of the analogy of turning from war to peace in the one case, from cold war to truce(?) in the other. Six major differences should be noted.

Factors in Current Situation

We came out of World War II with a price level only slightly higher than in the depression, but with a quadrupled monetary volume in the form of accumulated liquid savings. By this time, the liquidity may have increased by another 10%, but the price level has practically doubled. What was then "cheap" in proportion to our available means, is not cheap any longer. In addition, our "hoarding" habits have changed, as they usually do with rising income: the man with $10,000 income keeps more than twice as much cash reserve than the one with $5,000 income does.

Incidentally, this adjustment of prices to the monetary volume has taken place in most countries of the West, from Sweden to Brazil, perhaps least so in Britain. That is the prime meaning of price inflation: it corrects the disequilibrium created by excess money.

In the meantime, and this is the second point, the pent-up demand had been "soaked-up." Dollars do not burn holes any longer in consumer pockets. In fact, having regained his poise, so to speak, the consumer is in no hurry any longer. He can wait and choose. The buyer's market of a competitive economy having been restored (disregarding at this point the inflationary effects of recurrent wage-rounds), production is exposed to largely unpredictable changes in consumer choices as well as to fluctuations in the total volume of consumer demand.

The **automobile** market is a case in point. First quarter total sales, including trucks, run at an annual rate of 8 million units, approaching plant capacities. But in view of the serious situation in the second-hand car market, sales are expected to fall off more than seasonally in the second half of the year; the year's sales may not total more than 6 million units (5½ million in 1952). Whether the request for other popular durables—plus the indirect demand, such as arising out of the rapidly growing domestic tourist traffic—would make up for the deficiency, is doubtful.

A most disturbing aspect of fluctuations in consumer demand is due to their dependence on factors extraneous to its own "logic." A relaxation in the global tension, accompanied by substantially reduced armaments, may have serious psychological repercussions. Whether that can be offset—in the short pull!—by moderate tax reductions is questionable, too, sound as the ultimate conequences of lower tax rates will be (assuming no cash deficit in the 1954 budget).

Thirdly, the **"pipelines" of supply** were empty in 1945; they are full, over-full, in 1953. No problem of reconversion exists at this date, as it did at the earlier one. Inventories are at all-time highs in physical volume as well as in dollar value. Raw material sources had to be developed then; a majority of them is overdeveloped now. Even a moderate but fairly fast decline (by, say 20%—$10 billion) in global military spending might bring about a severe break in commodity prices. That, again, would be bound to have material and psychological consequences all around.

Fourth, a great change has occurred in the **financial structure** of the economy. It was superliquid at the end of the War; now, it may or may not be illiquid, but certainly is moving fast in that direction. The banking system has more than doubled the ratio of its loans to total assets. Government bonds lost much of their liquidity glamor due to the relaxation on the par value support by the Reserve System. Capitalized values—stock and real estate prices—have risen to 20-year peaks. Though still at a good distance from the 1929 levels the stock exchange has gone a long way. Most important: the total of non-federal debts is nearly double the peak in the gay '20s, rising (since 1950) at an annual $30-plus billion rate.

In short, a financial climate is developing all the earmarks characteristic of the Boom in an advanced stage. In a reversal, the huge volume of liquid holdings can scarcely be relied on as an immediate cushion; savers are the last ones to go on spending sprees—until and unless prices have hit a "bottom" and an upturn is in sight.

Fifth, the general atmosphere surrounding entrepreneurial decisions and consumer resolutions is conductive to caution. "Economy" and Restraint are the mottoes of today, replacing the Public Spending philosophy of yesterday, and by no means in this country alone. Credit restrictions and higher interest rates abroad and (to a much meeker extent) at home are symptomatic. The return to conservative standards — away from Keynesianism—is a very slow and mild process, of course. It still may turn out to be a hesitation on the edge of the inflationary precipice rather than a reversal of the trend. As yet, it has not touched the basic principle of the Welfare State: the wholesale subsidizing and fostering of pressure groups. But the correctives and palliatives applied and pending to control national budgets cannot fail to make many people stop and think before making new commitments.

Lastly, the global attempt to redress the dollar shortage by import cuts, and the prospect of reduced foreign aid, add up to the likelihood of diminishing American exports — a minor but not negligible item. It is important to realize how dependent the world is on our armaments. The total reliance of Japan's prosperity on the Korean War may be an extreme case, but it is indicative of many others. Peace in the Far East would make some raw materials resources available for the West, while the willingness of China and Russia to pay exorbitant prices for **contraband** would diminish greatly. To announce, as certain "experts" do, that an end to, or earnest relaxation in, the Cold War would bring the pent-up demand of 800 million people to our doorstep, is a relapse into the chiliastic naivety of the "Freedom from Want" era. Where would those people get the dollars with which to buy in real volume?

Peace Would Be Quite a Shock

"Outbreak of peace," implying a considerable reduction of armaments, would be quite a shock, no question about that. The more so, since what matters from the market and investment point of view is not merely the actual size of governmental spending. What is equally important is the expectation that it will be maintained. To disappoint it grossly would mean "murder" to those who have been betting on it. Their number is legion. True, all sorts of lending and spending devices, public and private, could (and presumably would) emerge. But they do not necessarily benefit the "victims" of armament reductions. In any case, they would take time to become effective. And time is of the essence in prosperity's ups and downs.

In other words, we have nurtured a colossal vested interest in armaments and subsidies. We cannot rid ourselves of this monster, that has attached itself with its tentacles to almost every joint of the economic body, without a degree of painful "disinflation." It is one thing to be fascinated by the enormous size and the unprecedented dynamism (upward) of the American economy, but another thing to gauge its resilience and flexibility (downward). Quiet a few rigidities, financial and mental, have been built into it in the last two decades; suffice it to mention the perverted "dynamism" of wage and farm price structures. Their adaptation to a serious revaluation of values might create "explosive" tensions which will have to be moderated. But surely, the Eisenhower regime would not be worthy of its salt if it would embark on a new inflation in order to cover up the mismanagement of the preceding era. And a substantial cut, in 1953, in the 1952 public spending of $78 billion could easily carry with it—for a while—a good slice of the $52 billion capital investments as well as of the $216 billion consumer outlays.

The foregoing is predicated, of course, on the assumption that the Russian truce offers (for Korea and Berlin) and other conciliatory moves herald a "new era" of peaceful co-existence. So far as America is concerned, mere gestures do not suffice any longer, and a fresh appeasement, the surrender of any major position, is out of the question. But can Russia be expected to make major concessions, such as to give up her revolutionary footholds in the Far East without a *quid pro quo?* Are we again up to a diplomatic maneuver in grand style, the double purpose of which is to create a fresh split in the encircling alliance and to gain time for the Soviet Sphere's military and economic consolidation?

No rational answer can be ventured without a re-appraisal of Moscow's international position and strength. In all likelihood, there is not the remotest prospect for an earnest relaxation in the "Cold War"—not until and unless America's superior force is set in motion to bring about the change.

S. F. Tapeworm Published Again

SAN FRANCISCO, Calif. — The San Francisco Bond Club has again published its annual "San Francisco Tapeworm" through the courtesy and cooperation of the San Francisco "Examiner." The humorous newspaper, a tradition since 1929, has for its staff, Ivan W. Wing, Weeden & Co., Editor; Harvey J. Franklin, Merrill Lynch, Pierce, Fenner & Beane, Managing Editor; E. W. Bache, H. E. Work & Co., and Brooks Weber, Davies & Co., Assistant Editors; Edward Goetze, Frank Knowlton & Co., Art Director.

With Barham & Co.

(Special to THE FINANCIAL CHRONICLE)

CORAL GABLES, Fla. — William J. Shinnick has been added to the staff of Barham and Company, 2007 Ponce de Leon Boulevard.

With First Florida Inv.

(Special to THE FINANCIAL CHRONICLE)

ORLANDO, Fla. — John H. Harrison has become associated with First Florida Investors, Inc., 19 South Court Street. He was formerly with Allen and Company and Florida Bond & Share, Inc.

Joins Frank Edenfield

(Special to THE FINANCIAL CHRONICLE)

MIAMI, Fla. — Joseph S. Maddlone has become connected with Frank L. Edenfield & Co., 8340 Northeast Second Avenue.

Atwill Co. Adds

(Special to THE FINANCIAL CHRONICLE)

MIAMI BEACH, Fla. — Allan E. Simon is now connected with Atwill and Company, First National Bank Building.

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The State of Trade and Industry

As long as steel consumers continue to enjoy their present high level of business they will buy steel regardless of price.

And if they have no more than a moderate decline in business, don't expect a great surplus of steel to be available, continues this trade journal. Any substantial drop in demand for steel will inspire steel producers to put some steelmaking capacity on a stand-by basis or to retire it permanently, it adds.

Some of the country's record-breaking capacity for producing steel is in operation only because of the heavy demand for steel. Some of this capacity is old and can be operated only at high cost, states this trade paper.

In the midst of the strong demand for steel, steel companies continue to make steel price adjustments, most of them upward and most of them through changes in extras. On a few products, base prices have been upped, but no general increase in base prices is expected unless the steelworkers win a pay increase in the forthcoming wage negotiations, "Steel" declares.

The industry will not be stampeded into granting a wage boost, this trade weekly asserts. This time the government will not interfere with the negotiations. As one of its bargaining points, the industry is likely to introduce at the negotiations a new means of measuring worker productivity, a study of which has been under way for some time on such a new yardstick.

Reflecting continued high assembly projections by the automobile industry, the demand for forms of steel used in autos remains strong. This puts a particularly heavy load on producers of hot-rolled and cold-rolled carbon sheets. Producers who opened order books for third quarter saw them fill rapidly, "Steel" magazine noted.

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 100.5% of capacity for the week beginning May 11, 1953, equivalent to 2,266,000 tons of ingots and steel for castings and unchanged from that of a week ago. For the like week a month ago the rate was 98.8% and production 2,228,000 tons. A year ago when the capacity was smaller actual output was placed at 2,102,000 tons, or 101.2% of capacity.

Electric Output Continues Lower Trend in Latest Week

The amount of electric energy distributed by the electric light and power industry for the week ended May 9, 1953, was estimated at 7,896,539,000 kwh., according to the Edison Electric Institute.

The current total was 42,284,000 kwh. below that of the preceding week when output totaled 7,938,823,000 kwh. It was 857,101,000 kwh., or 12.2% above the total output for the week ended May 10, 1952, and 1,329,726,000 kwh. in excess of the output reported for the corresponding period two years ago.

Car Loadings Show Fractional Advance Above Previous Week

Loadings of revenue freight for the week ended May 2, 1953, totaled 781,499 cars, according to the Association of American Railroads, representing an increase of 1,695 cars, or 0.2% above the preceding week.

The week's total represented an increase of 36,775 cars, or 4.9% above the corresponding week a year ago, when loadings were affected by labor trouble in the steel industry, but a decrease of 21,838 cars, or 2.7% below the corresponding week in 1951.

U. S. Auto Output Rises Only 1% Above Previous Week

Passenger car production in the United States last week advanced a bare 1% above the previous week, but held about 53% higher than the like 1952 week, according to "Ward's Automotive Reports."

It aggregated 143,270 cars compared with 142,170 cars (revised) in the previous week, and 94,922 cars turned out in the like 1952 week.

Total output for the past week was made up of 143,270 cars and 28,265 trucks built in the United States, against 142,170 cars and 30,557 trucks the previous week and 94,922 cars and 25,268 trucks in the comparable 1952 week.

Canadian companies made 8,622 cars last week, compared with 8,879 in the prior week and 7,268 in the like week last year. Their truck production for the week amounted to 3,189 compared with 3,215 in the preceding week and 3,079 in the similar week a year ago.

Business Failures Recede Slightly

Commercial and industrial failures dipped to 165 in the week ended May 7 from 169 in the preceding week, Dun & Bradstreet, Inc., reports. Despite this decline, casualties remained slightly above a year ago when 131 occurred, but fell short of the 181 in the comparable week of 1951. Only one-half as many businesses succumbed as in the similar week of prewar 1939 when the toll was 321.

Failures with liabilities of $5,000 or more declined to 126 from 143 last week and 132 a year ago. Small casualties, those involving liabilities under $5,000, rose to 39 from 26 in the previous week and exceeded the 29 in this size group last year. Twelve of the failing concerns had liabilities in excess of $100,000.

Wholesale Food Price Index Rises Slightly to New 1953 High

The Wholesale Food Price Index, compiled by Dun & Bradstreet, Inc., rose 1 cent this week to stand at $6.43 on May 5. This was a new high for the year and the highest since Oct. 7, 1952 when it stood at $6.44. It compared with $6.36 on the comparable date a year ago, or a rise of 1.1%. The 1953 low was touched on Feb. 3 at $6.13.

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 Level Closes Week Slightly Higher

After declining in the early part of the week, the daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., turned upward to close at 279.19 on April 5. This was slightly higher than the 278.97 of a week ago, and compared with 296.88 a year earlier.

Grain markets were irregular with most cereals showing minor losses for the week. Weakness in wheat was attributed to improved moisture conditions in growing areas, continued slow export and domestic demand, and large stocks reported under the loan. Easiness in corn was influenced by fears that deliveries on the May contract would be heavy and indications that the CCC will continue to liquidate substantial quantities from its large holdings. Oats declined slightly on news of further imports from Canada, but both oats and corn received some support from the announcement that loans on farm-stored corn and oats could be extended for one year. Average daily purchases of grain and soybean futures on the Chicago Board of Trade increased last week to 49,400,000 bushels, from 36,600,000 the previous week, and compared with 48,400,000 a year ago.

Hard wheat bakery flours remained dull last week as buyers showed little interest in covering beyond nearby needs.

A moderate volume was booked in semolina but demand for rye flour remained slow. Export flour trade was at an almost standstill with little prospect of any early improvement. Cocoa values advanced last week as limited offerings encountered improved demand. Warehouse stocks of cocoa at 66,557 bags, were down slightly from a week ago, and compared with 96,205 bags on the corresponding date a year ago. The raw sugar market was mostly steady in quiet trading except for a burst of activity at mid-week. Lard prices trended easier, reflecting weakness in related markets. Reflecting lower wholesale pork prices, live hog values declined the past week for the first time in six weeks.

Following irregular movements early, cotton prices trended upward to register further moderate gains for the week. Strength in closing sessions was largely influenced by active mill price-fixing prompted by continuing broad demand for bag sheetings and all types of print cloths.

Buying was also stimulated by an unexpected 12-point rise in the mid-April parity price for the staple and reports of heavy rains in growing areas which hindered land preparation and planting over much of the belt.

The belief prevailed, however, that plantings this year will run ahead of 1952 and will exceed the official Government goal by a wide margin. Sales of cotton in the ten spot markets continued to increase, and totaled 99,700 bales in the latest week, compared with 72,000 a week earlier, and 55,600 in the like week a year ago. CCC loan entries in the week ended April 24 totaled 41,600 bales, up moderately from a week ago. Loans outstanding on that date were 1,979,500 bales.

Trade Volume Held About Even With Prior Week

Shoppers in most parts of the nation spent about as much in the period ended on Wednesday of last week as during the prior week and slightly more than in the comparable week in 1952. Many retailers had hoped for significant rises in the demand for apparel the past week and attributed consumer hesitancy to inclement weather.

Consumers, more heavily in debt than ever before, devoted a larger portion of their incomes to durable goods than they did a year earlier.

The total dollar volume of retail trade in the week was estimated by Dun & Bradstreet, Inc., to be from 1 to 5% higher than the level of a year ago. Regional estimates varied from the year-ago levels by the following percentages: New England and East 0 to +4; Midwest and Northwest +1 to +5; South +3 to +7; Southwest and Pacific Coast +2 to +6.

With the help of special promotions for Mother's Day, many apparel stores sold about as much as in the previous week. New fabrics stirred the interest in men's apparel but buying of warm-weather clothing was yet to appear in volume. The total amount spent on apparel last week did not vary markedly from that of a year earlier; the most pronounced year-to-year gains were in children's clothing and men's sport shirts.

Food stores continued to sell slightly more than in the corresponding week a year before. Supermarkets generally chalked up better comparisons with year-ago sales volume than did small retailers.

Housewives continued to prefer beef to pork and lamb which moved higher in prices. Bountiful supplies of potatoes and citrus fruits weighed heavily on prices.

Most merchants of household goods noted a faltering of consumer demand last week although sales volume remained well above the year-ago level. Early inquiries for small air-conditioners led many stores to prepare for a substantial rise in the months ahead. In decreasing demand the past week were television sets, washers, freezers and floor coverings.

There was a mild rise in trading activity in most wholesale markets in the week. Encouraged by the recent robust response to retail promotions, many buyers increased their reorders of seasonal merchandise. The total dollar volume of wholesale trade continued to be moderately higher than the level of a year before. Inventories held close to the record level reached several weeks ago.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index, for the week ended May 2, 1953, advanced 2% above the level of the preceding week. In the previous week a decrease of 1% was reported from that of the similar week of 1952. For the four weeks ended May 2, 1953, a decline of 1% was reported. For the period Jan. 1 to May 2, 1953, department store sales registered an increase of 4% above 1952.

Retail trade in New York last week, according to trade observers, is expected to show a small increase over the 1952 week due to improved weather and special promotions.

According to the Federal Reserve Board's index department store sales in New York City for the weekly period ended May 2, 1953, registered a rise of 4% from the like period of last year. In the preceding week an increase of 3% was reported from that of the similar week of 1952, while for the four weeks ended May 2, 1953, a decrease of 3% was recorded. For the period Jan. 1 to May 2, 1953, volume declined 1% under that of 1952.

Joins Oscar Kraft

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Verner H. Kraft has joined the staff of Oscar F. Kraft & Co., 530 West Sixth Street.

Mutual Funds

By ROBERT R. RICH

HENRY J. SIMONSON, JR., President of National Securities and Research Corporation, predicts a rise of 3% in industrial production, accompanied by 2% decline in living costs and expects no bear market. Addressing a luncheon meeting of local security brokers and dealers and industrialists at the Biltmore Hotel in Los Angeles on May 5, Mr. Simonson, Jr. predicted, on an overall basis, a good business year in 1953. He decried the belief that a business recession was getting under way this year as a result of competitive conditions or other reasons, but he hesitated to predict when a readjustment may come because of the many imponderables that must be taken into consideration. As to the economic effects of an Armistice in Korea, Mr. Simonson held that such an event would not result in large cancellations of government defense orders—but is more likely to bring about a stretch-out in the military spending program, and thus would be favorable to our long-term business outlook.

"An end to Red aggression, which is our hope and prayer, probably would be followed by disarmament," Mr. Simonson noted, but added, to quote President Eisenhower, "we then would invest the savings in a global fund to war on the brute forces of poverty and need. Such spending would be for constructive purposes and thus should result in a more stable economy."

Mr. Simonson stated that his organization does "not expect a bear market in stock prices this year. Prices will probably fluctuate about 5% from the present level in the Dow-Jones industrial average but higher prices may come before the year is out.

"As to high-grade bonds, we believe that there will be some further adjustments in yields with the probability that a 50-year government bond will carry a 3½% interest rate."

As to economic conditions during the current year, Mr. Simonson predicted industrial production would be up 3% over last year, while the cost of living will decline about 2% from 1952. He estimated a decline in farm income of 3% while retail trade would be up about 4% to a new high. He predicted plant and equipment outlays will be about equal to last year's record of $26,800,000,000 and construction will be off only about 2% from last year's peak of $32,300,000,000.

EATON & HOWARD, Inc., the 29-year-old Boston investment management firm, has announced a new service available to investors. The Eaton & Howard Plan for Accumulative Investing is a convenient method of planned investing in Eaton & Howard Balanced Fund and Eaton & Howard Stock Fund. The shares of these Mutual Investment Funds are qualified for sale in each of the 48 states.

The plan is notable for its simple and flexible provisions. Special care has been taken to assure its effective and economical administration by The First National Bank of Boston, which receives all deposits, makes the investment purchases and handles all other details. Dividends are automatically reinvested under the plan, and participants may send in new money for investment in amounts of $50 or more as regularly as they wish.

Purchases of shares are made at the time of dividend payment dates for accounts with a minimum balance of $100. This feature of the Eaton & Howard Plan minimizes the number of investment transactions, thus simplifying the investor's record-keeping problem. Investors participate in the plan by filing an application through their investment dealer. Applications from investors who are not already shareholders must be accompanied by an initial investment of $250 or more.

THE RECENT decline in the Canadian security markets has been utilized by the management of the Canadian Fund to make additional purchases of common stocks. The Fund's reserve of cash and Canadian Government bonds has been reduced from 19% of net assets on Jan. 31, 1953 to 13.5% on April 24, last. Principal purchases during the period were 6,900 shares of Aluminium Ltd., 7,000 Falconbridge Nickel Mines, 8,000 Canadian Pacific, 4,325 Canadian Celanese, 5,100 International Paper, 3,000 Consolidated Paper, 7,775 Interprovincial Pipe Line, 3,050 McCall Frontenac and 1,600 Amerada Petroleum.

TOTAL NUMBER of shareholder accounts of Investors Mutual, Inc., largest mutual fund affiliate sponsored by Investors Diversified Services, Inc., climbed from 135,000 to 147,000, a gain of approximately 12,000 in six months, the fund's semi-annual report revealed.

The report showed that assets of the fund increased approximately $52,000,000 to total net assets of $451,124,819 as of March 31, since the end of the fund's fiscal year, Sept. 30, 1952. Shares of capital stock outstanding rose from 28,322,285 to 31,271,195 reflecting sales of the fund's securities to new and existing shareholders during the six-month period.

A review of six-months operations by Investors Diversified Services, Inc., which acts by contract as the fund's investment manager, revealed that emphasis has been on maintenance of income. About 40% of all new money coming into the fund during the six-months period has been invested in bonds and preferred stocks.

As of March 31, 1953 about 36% of the fund's assets were invested in senior securities. Approximately 62½% of the fund's assets were invested in common stocks.

In seeking to select and hold issues which give promise of maintaining dividends, as well as those which have some prospects of increased payments, the fund's investment managers have continued to emphasize the light and power field. Holdings of public utilities common stocks, preferred stocks and bonds amounted to 35% of the fund's total assets as of March 31. In investing in utilities, the fund has "sought out smaller communities which have grown and appear likely to expand further," the report pointed out.

"Companies serving such areas," the report stated, "not only have the stability of income common to most operating utilities, but also afford a fair chance of enjoying a rising earnings trend and hence raising their dividend payments. The utilities have enjoyed a price rise equal to that of industrial stocks in the past six months, which is somewhat unusual. There seems to be no reason to doubt that utilities will continue to be favored in the remainder of the fund's fiscal year, at least."

Eight of the 19 corporate issues added to the fund's investment portfolio during the six months were utilities.

THOSE WORRYING about possible economic ill-effects of a cease-fire in Korea can find assurance in the current report published by Distributors Group, sponsors of Group Securities, Inc. "Our annual outlay in Korea of about $5 billion seems—and is—a huge sum," it states, "but not in relation to huge totals.

"Our total defense expenditures, presently at a peace-time peak, are about $52 billion which is some 14% of our national production. The cost directly attributable to hostilities in Korea represents only about 1½% of national production.

"To put this in perspective, consumer spending accounts for some $226 billion . . . is over 40 times greater. The 'lift' to our spirits might quite easily affect our personal expenditures to a greater total than the Korea drain! There are already indications that consumers not only can but will increase the present high level of their purchases."

SHAREHOLDERS of Fundamental Investors, Inc., at their annual meeting Monday elected these directors: T. Kennedy Stevenson, Chairman of Executive Committee of the Griscom-Russell Co. and formerly Financial Vice-President and a director of Western Electric Co. where he was Chairman of the committee that administered the company's $300 million employee pension fund; Douglas B. Steimle, partner of Shearman & Sterling & Wright, legal counsel to many large organizations including National City Bank, Air Reduction Co.; Roger Tuckerman, partner of Wood, Walker & Co.; Hugh W. Long, President of Diversified Funds, Inc., Manhattan Bond Fund, Inc., and Investors Management Fund, Inc.; Julian K. Roosevelt, partner of Dick & Merle-Smith.

Officers of Fundamental Investors elected today are Hugh W. Long, President; Charles J. Vollhardt, Vice-President and Treasurer; and Adron P. Trantum, Secretary. George E. Roosevelt is Chairman of the Board and W. Emlen Roosevelt is President of Investors Management Company, the investment research organization which manages this Fund.

The eighty-first quarterly report of Fundamental Investors, Inc. marking the beginning of that investment company's third decade of operation, was released to its 44,856 shareholders. Covering the first three months of 1953, the report reveals total net assets of $150,221,577 and a net asset value per share of $19.69 on March 31, 1953.

On that date assets of the Fund were 98% invested in 124 common stocks of companies in more than 20 different industries. In the 3 months under review, management added to investments shares of Caterpillar Tractor Co., C.I.T. Financial Corp., Continental Can Co., Inc., Dixie Cup Co., E. I. du Pont de Nemours & Co., Iowa-Illinois Gas & Electric Co., Northern States Power Co. (Minn.), Southern Co., Union Bag & Paper Corp. and Union Carbide & Carbon Corp.

Eliminated from investment holdings during the same period were common stocks of Bristol-Myers Co., Merck & Co. and Sharp & Dohme, Inc.

The first quarter's dividend paid to shareholders from net investment income in 1953 amounted to 22 cents per share, compared with 20 cents per share in the first quarter of 1952.

THE TOTAL assets of Keystone Custodian Funds, Inc.—the Trustee Organization that supervises the investments of the 10 separate Keystone Funds—had a market value of $226,432,900 on March 31, 1953. This represented a gain of 4% over the $217,931,900 of total Keystone assets a year earlier. Those Keystone funds with income as their primary investment objective continued to be the most popular with Keystone investors, as shown by the growth in the number of shares outstanding and number of shareholders of Keystone Funds "B4" and "S1", according to semi-annual reports on these two Funds for the six months ended March 31, 1953.

Keystone Fund B4's 18,147 shareholders had total assets of $41,868,000 invested in 57 different issues of discount bonds. This represented a gain of 15% over the $36,498,000 of total assets reported 12 months earlier, and the largest part of it was due to the 12% increase in the number of shares outstanding — to 3,679,000 from 3,286,000.

The asset value per share of this Discount Bond Fund moved up to $11.38 on March 31, 1953 from $11.11 on the same date a year ago—a 5% increase in value, adjusted for the 30 cents per share distribution from realized security profits six months ago. The latest dividend from net investment income was at the rate of

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The Institutional Investors Mutual Fund, Inc.

which are occasionally of controlling importance. It is a field in which there is no substitute for a broadly based experience and conversance with those forces that significantly influence values.

The matter of an investment advisory contract for the company was given careful consideration by the Directors and the retention of Savings Banks Trust Company for this purpose was approved. Following an exploration of the various advantages and disadvantages involved in the retention of an outside organization the unusual position of Savings Banks Trust Company, its ownership by the savings banks, its existence solely for the purpose of serving the interests of savings banks, its conversance with the operations, requirements and objectives of savings banks, as well as its strong incentive to perform to maximum advantage in connection with the investment company weighed conclusively in favor of utilizing it as investment adviser.

The statistical and research staff of Savings Banks Trust Company through additions and reassignment of duties has been augmented and reorganized to the extent necessary to provide the required services relative to equity investments by savings banks and, particularly, the advisory and research functions to be performed under the contract with IIMF. The size, nature and disposition of this staff insofar as it is designed to operate in the service of IIMF will be related to the growth, requirements and operating experience of the latter.

A stupendous amount of basic economic data and financial information is available to the investor in common stocks. This material is not within the monopolistic control of any one organization or any group of organizations. It exists as a great reservoir of raw or semi-finished material which, after appropriate processing through study, analysis, evaluation and interpretation, becomes, in refined form, the informing principle of an intelligent investment policy.

As in the case of basic investment data a highly developed faculty for accurate interpretation of this material is by no means the exclusive attribute of any single institution offering investment advisory service. It is almost axiomatic, and certainly in accord with the record, that interpretations and reecommendations as to policy based upon the same fundamental data will differ as among individual organizations regardless of nature, size, or background.

In the financial community Savings Banks Trust Company occupies an unusual position with respect to tapping sources of valuable investment information. Its depositary relationships with the large commercial banks and trust companies would seem to assure an effective cooperation in making available statistical and interpretative data of significant value while the investment banking and brokerage organizations would have, likewise, it seems to me, a strong incentive to develop potentially profitable business relationships in connection with the operation of the investment company.

Thus it would seem practically assured that the Trust Company will have ready access to external sources of recognized experience in, and familarity with, the field of common stock investment. Obviously any information, opinions, or ideas of significant value so obtained will be carefully appraised and evalued as an element in the formulation of its own policy and recommendations to the Executive Committee of Institutional Investors.

It is the policy of Savings Banks Trust Company to conduct field investigations and interviews with the objective of supplementing ordinarily available information concerning corporations in which Institutional Investors has investments or contemplates making investments. As the company grows an acceleration in the program of field interviews would seem to be likely. Such discussions with responsible corporate officials not only open additional avenues of important information as to facts and policies but provide opportunities for the evaluation of operating personnel as an element in corporate management. There is no doubt that corporate managements look favorably upon large and stable investment interests such as IIMF will presumably become in time and that they will cooperate in making available within reason whatever information is desired.

One element of corporate management that has assumed outstanding significance is that of research. Many of America's great corporate enterprises equipped with high-powered research staffs are moving into the future with practical protection against what might be adverse competitive forces in the form of inventions, further developments in science and technology, and in new processes. The scope and intensity of research activities may well prove a corporation's best assurance of continuity and growth in a highly competitive world. Through research it might be said that progressive corporate management—particularly in the chemical and related fields—is actually setting the pattern of future demand for products some of which are now largely unknown. The significance of research activities has been a salient element in the selection of stocks of industrial companies for the initial portfolio of Institutional Investors Mutual Fund.

Selection of Initial Portfolio

Selection of a portfolio of common stocks from the standpoint of the requirements and objectives of Institutional Investors under prevailing conditions of uncertainty and confusion presented a challenging problem. Economic history of the last few years has brought the country to a point in overall productive capacity at which, in the absence of a pronounced deterioration in international relations, some measure of contraction in business activity within the visible future would seem to be a reasonable expectation in spite of a hard core of practically irreducible federal spending for military and related purposes.

Furthermore, the significant increases in debt in every sector of the economy over the last few years has focused attention upon the clear connection between the stimulating effects of rising debt —particularly consumer debt within the last year—and a level of business activity denoting general prosperity. A restrictive Federal Reserve credit policy supplemented by an anti-inflationary Treasury debt management policy has signified an apparently determined effort on the part of the Federal administration to deal forthrightly with what are considered to be potentially dangerous forces of inflation.

On the other hand, while stock prices are historically high many representative issues do not seem to be excessively priced in relation to present earnings and dividends. In addition, some moderate reduction in Federal spending would probably be accompanied by lower taxes which, of itself, would presumably stimulate to some extent the general economy and would be a favorable influence on corporate earnings.

The Executive Committee of Institutional Investors reviewed and approved a list of 51 common stocks recommended by Savings Banks Trust Company to constitute the initial portfolio of IIMF. These recommendations of the Trust Company were based on extensive study and investigation involving outside contacts and interviews with sources of significance in the field of common stock investment. This important matter of initial selection was carefully approached with appropriate recognition of the characteristics that predominate in the various major industries, of relative corporate positions in those industries and with full consideration of the requirements and objectives of the company at this time as a vehicle for savings bank investment.

Also reviewed and approved by the Executive Committee was a recommended master list of 178 stocks comprising issues considered to be of sufficient investment quality to justify selective inclusion in the portfolio under appropriate conditions. Both these actions of the Executive Committee were subsequently approved by the Board of Directors.

Institutional Investors, while legally empowered to hold securities eligible for savings bank investment with certain few exceptions, was conceived and designed basically to afford the savings banks a device for collective investment in a common stock fund to be operated under continuous professional and informed supervision. The company after it has attained some practicable size should operate at measurably greater economy, that is, at lower cost per dollar of invested funds, than would be the case with a direct investment by a savings bank, assuming, of course, that the savings bank operation approximated the scope and quality of the supervision that would be signally characteristic of the company's operation.

It was from the beginning the opinion of those most closely identified with the organization of the company that in the specialized field of common stocks it could best serve the interests of the savings banks. In my opinion only the most unusual conditions would justify any significant departure from a policy of practically full investment in a carefully selected and maintained group of outstanding common stocks.

The Executive Committee at a meeting of March 20, 1953 in an action subsequently approved by the Board of directors authorized the investment of substantially all the initial funds of the company in common stocks with 5% to 10% to be held in cash or short-term Treasury securities. The latter provision reflects the desirability of maintaining at least some purchasing power with which to take advantage of special or temporary market situations.

The virtually full investment policy in common stocks is required if this company is to become an institutionalized device for joint common stock investment available at all times to the savings banks in accordance with individual programs as to purchase, sale, and timing. Some banks will probably enter the market through IIMF under a policy of dollar averaging, while other banks may adopt techniques more in accord with individual requirements and objectives. Any substantial departure from this full investment policy would prevent the company from performing the investment function for the savings banks for which it was designed.

It was the desire of the Directors and the recommendation of the Investment Adviser that the composition of the initial fund should reflect a preponderantly defensive position as appropriate in the circumstances. Careful consideration was given to this outstandingly important matter with the result that the Executive Committee on March 20 resolved in favor of an initial portfolio distribution representing approximately two-thirds defensive elements and the balance issues involving greater volatility. This action was subsequently approved by the Board of Directors.

In summary, the basic investment objective of Institutional Investors at this time is to confine the portfolio largely to those issues likely to maintain earnings and dividends under conditions of declining business activity to an extent appreciably greater than the average. It is interesting to note that growth characteristics are evident to some degree in nearly one-half of the stocks recommended and approved. The composite yield of the initial portfolio will approximate 5.2%.

It might be of interest to note that of the stocks selected for the initial portfolio 19% represent electric utilities chosen with emphasis on non-industrial load, while 12% represent the petroleum industry with emphasis on domestic reserves and production, thus avoiding the greater risks incident to marketing and foreign operations. Retail trade is represented to the extent of 11% with all companies except one operating a cash business. No department store stocks are included in the list which, in the field of retail trade, was limited to stocks of companies characterized by a rapid turnover of basic necessities. Food, tobacco and containers represent respectively 9%, 8%, and 6%, while automobile stocks accounted for only 4% of the list, with 2% in building stocks, 2% in electrical equipment shares, etc. The overall defensive element is, as indicated, approximately 68%.

The fact that this list is original in its composition, following no habitual or customary pattern, is best indicated by its inclusion of only 16 stocks that appear in the compilation of the 50 stocks most favored by the country's investment trusts. Furthermore, of the 55 common stocks occurring most frequently in the lists of the large university endowment funds, only 18 are included in the initial list approved for IIMF.

Savings Banks Trust Company as contractual investment adviser will have the responsibility of following closely the operations of, and the conditions affecting, the companies represented in the portfolio of Institutional Investors. The Trust Company will also maintain a close observation of investment conditions with particular reference to equity securities.

It is expected that from time to time the investment adviser will recommend to the Executive Committee timely changes in the portfolio. Such recommendations will be given appropriate consideration by the Executive Committee and the Directors in discharging their responsibility for investment policy and for maintaining the investment position of the company in accordance with basic objectives.

The Fund must be maintained at all times as to quality, composition, diversification and investment supervision—an outstanding vehicle for joint investment in common stocks by savings banks. As such, over the years, its stature in the structure of savings bank investments will be sure to grow.

I have already referred to the requirement of the Superintendent that investments in the shares of IIMF by large banks be limited for the present to a nominal amount and the related policy approved by the Board of Directors.

This limitation leads directly to a consideration of the potential size of the company in relation to the purposes which it was designed to serve. It is the hope of the Directors that the company in providing a valuable and serviceable vehicle for investment in common stocks will be subject to consistent but gradual growth. While equity investment through the shares of the company may be particularly appropriate for banks of medium and small size, it is obvious that until the company has attained some reasonable size its unit costs will not have been reduced sufficiently to permit operation at maximum efficiency and in the best interests of these very banks.

Denial of participation by large banks beyond the extent of nominal interest as required by the Superintendent would defer the attainment of a practicable size for the company. It is my hope that before long with a creditable record of operation the large banks will recognize in Institutional Investors a serviceable, efficient and desirable medium of investment in common stocks and that the position of the Superintendent in requiring limitation of investment in the company's shares by the large banks to a nominal amount, however justified in the first instance, will be modified in the interests of the company and of the savings banks holding its shares.

Texas Eastern Prod'n Issues Com. Stk. Rgts.

Dillon, Read Is Dealer Manager

Texas Eastern Production Corp. is issuing to holders of common stock of Texas Eastern Transmission Corp. rights to subscribe at $10 per share to 1,833,009 shares of the production company's common stock at the rate of one share for each three shares of Transmission's common stock held of record May 8, 1953. The subscription warrants also entitle holders to subscribe for additional shares, subject to allotment. The warrants expire at 4 p.m. (EDT) on May 27, 1953.

Under an agreement with the company Dillon, Read & Co. Inc., will act as Dealer Manager and is forming a group of investment firms to solicit the exercise of warrants.

The offering represents new financing by the production company. Texas Eastern Transmission has an investment of $10,816,137 in the production company, represented by 1,081,613 shares of common stock at a cost of $10 per share, and has agreed to purchase at $10 per share additional stock which may be unsubscribed up to a total of 450,000 shares.

Proceeds of the sale of the new common stock will be applied by Texas Eastern Production toward the repayment of a $10,000,000 bank loan and to the extent available to provide additional working capital. The company has plans for expenditures at the rate of around $3,000,000 a year for exploratory operations.

The production company at present is engaged in exploration activities, principally in West Texas, and owns natural gas reserves located in the Hagist Ranch, Loma Alta, Maxine, Rhode Ranch and West Hamshire Fields in Texas and the East Haynesville Field in Louisiana. Its principal gas reserves are under contract to Texas Eastern Transmission Corporation.

With Waddell & Reed

(Special to The Financial Chronicle)

BEVERLY HILLS, Calif. — Philip E. Sheehan has become connected with Waddell & Reed, 8943 Wilshire Boulevard.

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Factors Affecting Interest Rates

additional issues of Treasury securities, must be looked upon as one of the natural forces in the market place. If we looked upon it in any other way, the end result would be that the Federal Reserve, more or less, would set the prices at which all Treasury securities sold. Thereupon, free markets for interest rates would disappear. Credit policy once more would be subordinated to the Treasury's financing needs—the very thing we have just gotten away from. We are fortunate that both Treasury and Federal Reserve officials see eye to eye on this. As you know, Dr. Burgess has characterized the pricing of recent offerings of the Treasury as ones which were "at the going rate." He also has said that this kind of pricing will be the Treasury's future policy.

One of the rules of the game in fiscal policy, is that the Treasury should have a substantial surplus when business is good. We don't have that now, and the major question regarding future fiscal policy is: How quickly will the result be consistent with the principle? The present result flows from the policies of a prior administration.

The rules of the game for debt management: I'm not too clear personally on what these are at this time. I imagine that the questions on your mind and mine are not dissimilar and you, therefore, may be unclear also. This confusion or general lack of knowledge of the rules of the game for debt management has contributed to the unsettlement in Treasury security prices since the beginning of the year.

Now, what do we know and what don't we know? We know that one of the basic objectives of the new Treasury team is debt reconstruction of the type that will reduce the amount of the debt that comes due in a short time, and we know that the Treasury intends to lengthen the maturities of its new offerings whenever this is practical. What we don't know includes the following: Under what rules of the game will these objectives be pursued? To what extent may debt reconstruction and the lengthening of maturities of new offerings be limited, for example, by major changes in business conditions? Let me illustrate what I mean by making a comparison with the rules of the game for credit policy. There we know that credit restraint is to be expected in situations such as the present, that the policy is likely to shift to neutrality if the demand for credit subsides, that it will shift to ease when a downturn in business becomes clearly foreseeable. We know that, in a recession, credit policy is unlikely to be restrictive, and that it is more likely to be one of ease until business picks up considerably. Now, is debt reconstruction to be pushed ahead if business turns downward? Are long-term securities to be sold when credit demand is relatively light because business is less buoyant or the business outlook is viewed with misgivings? What are the rules by which debt management will cause its handling of the debt to run parallel with changes in credit policy?

This new Treasury team is an all-star combination. It has demonstrated courage and determination in coming to grips with the problems of debt reconstruction and the sale of longer-term securities. For this it has won well-deserved applause, but by demonstrating its determination it has increased the need for better public information on the rules of the game that may be followed in managing the debt.

Up to this point I have outlined what I believe to be the interdependence of credit and fiscal policy and debt management, and the rules of the game as these are called for when things are going according to Hoyle. But things aren't going that way and Mr. Martin didn't tell us, in his Detroit talk, **what the rules might be for credit policy under today's misshaped conditions.** So I'm going to have to resort to what I trust is a logical interpretation of what these may be. My thinking starts with the premise that business is good and as long as business is good, and credit demand remains strong, credit policy should remain restrictive. Then too, I believe that credit policy currently is based more **on actual business conditions** and less **on polls as to future business conditions.** This has not always been the case. Next, I assume, as I stated earlier, that the increased amount of Treasury securities to be outstanding will be considered as a natural force in the market that may be expected to find reflection in market prices and yields. Obviously in this circumstance, interest rates should be expected to rise further.

Two aspects of Treasury deficit financing and of Treasury refunding should now be considered. One, is **the impact of higher rates** and the second is **the increased need for reserve bank credit** that may follow from the deficit. We may witness over the near future what I would call a material rise in short-term interest rates. We may find, for example, that the one-year rate is 2¾% next week and, in the not too distant future, we may find some short-term Treasury securities selling to yield 3 or 3¼%. If so, the general credit environment would become more restrictive than it is at the moment, purely because of the higher rate structure. In other words, if the Federal Reserve did nothing to reduce further the availability of its credit, a higher degree of credit restraint nevertheless would become effective. Since the authorities seem content with the current results of credit policy they might take steps to hold its effectiveness about where it is instead of permitting it to become more restrictive.

Now, on the potential increased need for Reserve bank credit: The prospective deficit is suffiicently large, under almost any estimates, to indicate the necessity to place a substantial amount of new deficit securities with the commercial banks. A part would be on an underwriting basis such as occurs on the issuance of tax anticipation bills. An additional amount would be on a more permanent basis. Both types of bank absorption of the deficit require an increased amount of Reserve Bank credit. Therefore, if the Federal Reserve did nothing to make this credit available, the financing of the Treasury's deficit would increase the degree of prevailing credit restraint. The Federal Reserve might well wish to erase the enhanced restrictiveness of its policies.

The question is: **How and under what circumstances will it do so?** I think we can find some clues that will help us with this question.

Commercial bank absorption of the deficit is the least desirable result. Both the Federal Reserve and the Treasury will hope (1) that the increase in short-term yields and in interest rates generally, will decrease marginal demands for private credit without impairing business conditions, (2) that these higher interest rates will increase the desire to save and (3) that these higher interest rates will attract idle bank deposits, thereby reducing the residual amount of commercial bank purchases. I, therefore, believe that credit policy will be guided by these three possibilities as long as business remains good.

I would expect **the Federal Reserve to plan its open-market operations and its discount policy along the following lines:** If a rise in short-term interest rates seems to be materially increasing the effective restraint of the System's credit policy, I would expect to see net purchases of Treasury Bills for the System Account or an enlarged use of repurchase agreements with dealers. Either would tend to retard but not to prevent the rise in interest rates. If, as things go along, non-bank buyers do not appear to be satisfactorily attracted by the going yields on Treasury securities, and if short-term market rates prevail at levels materially above the discount rates for a period of time I would not be surprised to see the discount rates increased.

I would look for the Federal Reserve to make additional reserve bank credit available from time to time with the amounts always less than that which seemed to be needed; with the availability of additional bank credit granted in a reluctant manner and with a more critical attitude toward member bank use of the discount privilege. I can't see many other ways for the Federal Reserve System to meet the problems created by the Treasury cash deficit in the current situation.

The actions I have mentioned **would aim to prevent credit policy from becoming increasingly restrictive,** but it would not foreshadow, as I see it, an immediate end to the firming of interest rates. Certainly, it would not be designed to sanctify any particular interest rate for either long- or short-term securities. A turnabout in interest rates, first to stability and, then, to slightly lower levels must await, as I see it, a fairly substantial decrease in the demand for private credit, or a visible downturn in business activity with increasing unemployment, a measurable decrease in national income, or some comparable combinations.

At this point I would like to say **something about the interrogation and criticism of Treasury and Federal Reserve officials that originates today** largely from those in Congress and elsewhere who have steadily been advocates of the "easy money forever" school. You will recall that it used to be said that easy money for the Treasury meant easy money for everyone else. Conversely, it may be said today that if money is to be tight and less readily available for private borrowers because of booming business conditions and a strong demand for private credit, it then must follow that money will be more costly and less readily available to the Treasury. This is unfortunate, but it certainly is not the fault of the new Treasury team nor is it a reason for the Federal Reserve System to divert its attention from the Administration of a sound credit policy. The blame and the responsibility certainly must rest solely and squarely on the shoulders of those in the last Congress who failed to see that the Treasury's cash receipts during 1953 would equal the amount of money that might be spent under new and old appropriations. For Congressmen and Senators and some others to ask Treasury and Federal Reserve officials why Treasury interest costs are rising in the present circumstance suggests that they either have a permanent bias toward inflation or a dismaying lack of knowledge of the fundamental issues. Yet, we may expect that there will be continuous attempts at political intervention in any course of action, however sound, that raises the cost of borrowing to the Treasury and which may offer some political cannon fodder for next year's election.

Naturally, some investors who have large losses in Treasury and other fixed-income securities are unhappy about these losses and they, too, are asking questions. Some of these worry about what would happen if institutions around the country were to be asked all of a sudden to evaluate their security portfolios at market instead of amortized cost. This would be unfair and could be costly to the economy as a whole. Some private assurance that this is not to be considered would enable such investors to view the beneficial results of free markets for interest rates from a wider, more long-range perspective.

Now, to get back because I want to pin the outlook down by including **two other points. One deals with the debt structure,** the need for its reconstruction, and the limitations within which this reconstruction may be undertaken. **The second concerns** the size of **the cash deficit,** the amount of new Treasury security offerings to be made and the possible sources of the money.

On the Debt Structure. The gross public debt as of May 1 last was $266 billion. The interest-bearing debt, including $2 billion of tax anticipation bills was $264 billion. Adjusting for these the interest-bearing debt may be said to be $262 billion. In thinking about reconstruction of the maturities of the debt we need to break it down into various segments.

Government Accounts hold $47 billion of Treasury securities, most of which are so-called Special Issues. For all practical purposes this part of the debt may be ignored insofar as we are interested in the reconstruction of debt maturities.

E and H bonds are outstanding in the amount of $36 billion. These occupy a special niche of their own. The problems in E and H bonds are largely those connected with keeping sales ahead of redemptions and of widening the distribution of this type of government security. They are not a a part of the maturity reconstruction problem.

The other savings bonds, the Series F, G, J and K, are outstanding in amount of $23 billion and because of the amounts maturing are becoming a first-class problem. The Treasury is to be complimented on being on top of this situation but the exchange offering of the new 3¼% bond clearly demonstrated that such a bond was too long, or that many of these investors aren't anxious to join the host of those who have losses in marketable Treasury securities and, as was known beforehand, many simply prefer higher-yielding corporate bonds or tax-exempt municipals at this time. In essence, the first exchange offering pointed up the problem more than it solved it.

There are redeemable savings notes outstanding in amount of $5 billion. These undoubtedly will refund themselves as holders elect to redeem them in payment of taxes or to reinvest the proceeds in the higher-yielding marketable obligations that are being issued.

Next, there are the Federal Reserve System's holdings of $24 billion which should consist largely of short-term issues, such as Treasury bills and certificates arranged under a staggered schedule of up to one year. A substantial percentage of the System's holdings are haphazardly in this form. Few would advocate in any event that the short-dated debt held by the System should be refunded into intermediate- or long-term obligations. Consequently, it seems clear that we may eliminate this $24 billion from that part of the debt for which maturity reconstruction is needed.

Then there are the 2¾s **of 1975-80** which, as you know, are not marketable but which may be converted into 1½% marketable notes with a term of from four and one-half to five years at the time of conversion. At the moment, the amount of these notes outstanding is small except for Federal Reserve holdings. Since the Treasury will get four and one-half to five years' warning about any enlargement in this problem, we should be able to dismiss these for the moment, too.

In other words, when you get down to brass tacks, the problems of reconstructing the maturities of the outstanding debt are of several kinds. First, there are the E and H bonds. Next, there are the F, G, J and K bonds, and then there are the savings notes. Each of these three problems is different in nature. Each requires a different approach and each is rather different from those to be met in reconstructing the maturities of the marketable debt that is publicly held. That is the only portion of the debt left. The amount outstanding is $118 billion.

Here is the maturity distribution as of May 1. $43 billion matures within one year, $22 billion matures within one to two years, $8 billion within two to five years and $45 billion in over five years. Note that in addition to the $43 billion maturing within one year, another $22 billion becomes one-year debt within the next 12 months. In other words, the Treasury must refund $22 billion into new securities with a maturity beyond May, 1955. If it fails to get at least this amount refunded into securities at least that long the one-year debt will be larger than it is today. The chances of doing this are rather small because the bulk of the maturing obligations are held by business corporations and commercial banks who may be expected to prefer to reinvest in securities of one-year or less unless business is in a recessionary trend.

On top of this, some substantial portion of the Treasury deficit will have to be covered by the issuance of securities of one-year term or less. It seems doubtful that the Treasury will be able to make headway in reconstructing the maturities of the debt over the next few years.

This statement does not ignore the possibility of selling longer-term obligations to non-bank institutions and to individuals. It is possible to do some of this and the proceeds could be applied to a reduction in the short-term debt but the prospect for the balance of this calendar year are rather poor. Over an average year I would guess that savings banks, insurance companies, pension funds, state and municipal funds and the like might accumulate from $1 to $2 billion that normally would be open for investment in attractively priced Treasury bonds but, as long as private capital and credit demand and mortgage manufacture remain high, the chances are such investors will perfer to go overboard a bid in these higher yielding, more remunerative outlets and to put their buying of Treasury bonds in mothballs until sometime later on. Even if this is wrong, the annual increments of such investment are unlikely to be sufficiently large to reduce materially the near-term problems of debt reconstruction.

Now let's look at somewhat longer-range considerations. Most of us expect this Administration to provide the Treasury with a cash surplus beginning not later than the fiscal year 1955. We hope that cash surpluses thereafter will be the rule rather than the exception. When the Treasury has a cash surplus, it may be expected to retire publicly-held debt by redemption of marketable issues at maturity. This suggests that long-range debt planning provide for this contingent need on the part of the Treasury to withdraw publicly-held marketable debt as it matures.

The premise of a cash surplus leads to a second premise. This is that the Government Accounts will have monies to invest which will require an additional reduction in the amount of Treasury securities that are publicly-held. In other words, in the event of a series of Treasury cash surpluses, two increments of reduction in the publicly-held debt would have to be made.

We must recognize, therefore, that the retirement of the marketable debt that is publicly-held will be larger than the true debt reduction. The impact of the withdrawals of this publicly-held debt should not be measured in terms of the $262 billion total nor of the $118 billion of the marketable securities held by the public nor the somewhat larger amount to be outstanding at the end of this year. This impact must be measured in terms of the supply of short-term securities that **will remain outstanding after these reductions**, have been made, and in terms of whether the maturity schedule in future years permits these to be withdrawn easily and whether commercial bank holdings might be decreased by too large an amount.

The debt maturing within two years is excessive and creates many difficult problems of Treasury financing, but the amount of debt due within five years may not be excessive. My conclusion on this problem of reconstructing the maturities of the debt, therefore, is that we need to achieve a better spacing of the debt currently with a term of five years and less; it is more important to spread this $73 billion over five years than it is to push long-term bonds into an unreceptive market.

But, in any event, if the Treasury were to lay its basic planning and thinking about this matter of maturity reconstruction on the table so that you and other investors could see it and digest it, you might be less confused about Treasury financing and your appetite for bonds such as the new 3¼s might be whetted considerally.

The last point in my discussion concerns **Treasury deficit financing.** First let's look at the **amount.** The amount of Treasury securities that will have to be sold for cash between now and the end of the year will be the total of the Treasury's cash deficit plus the amount of attrition to be incurred (1) from savings bonds of all classes, (2) from savings notes and (3) from the redemption of marketable securities at maturity by those who fail to exchange. Our guesstimate of the Treasury's total cash financing needs is $13 billion.

Where is the money coming from? The answer is important. As I mentioned before I am rather doubtful that savings banks, insurance companies, pension and other funds will provide much of the Treasury's cash needs between now and the year end. $1 billion seems like an optimistic guess. $5 billion may be sold, later in the year, in the form of tax anticipation bills. Such an amount will probably absorb the full buying power of business corporations. If these estimates prove to be reasonably good, the Treasury then will have to find other buyers for about $7 billion of new securities. These other buyers will be largely commercial banks.

Now let's take a look at **the timing of the Treasury's needs — in refunding and for new cash**—because this complicates matters considerably. The Treasury will be raising new money in the Bill auctions from now to early June. The books should open for the refunding of the June 1 and June 15 maturities next Monday, May 18. While all this is going on, business corporations will be preparing to pay their second quarter Federal income taxes. The money market generally becomes tighter and the yields on short-term securities rise. As the clouds lift from this part of the picture the Treasury, in July, probably will need $4 to $5 billion to cover its cash outlays during July and August. By the end of July, the Treasury will have to set the terms for the refunding of its August 15 maturity. As these are issued the Treasury will have to face the maturity of the 2% bonds of September, 1953.

This is a terrifically heavy schedule and will place quite a strain on the free markets for interest rates. The increased amount of bills to be sold over the next few weeks should be reflected in slowly-rising yields. These and other interest rates will be affected also by the rate required on the refunding next week. Naturally, I don't know what the Treasury is going to do. I would guess that the refunding offering would be confined to securities of one-year or 15-months term. The required coupon rate looks like 2¾%.

It will be against the background of some such offering that the market then will look forward to the prospects for the money market during June and a cash financing in July. Therefore, it seems to me that by the time we get to mid-June Federal Reserve officials will face some pretty tough decisions. The then-prevailing level of short-term yields and the demand for credit accommodation, coincident with the income tax payments, might suggest that the discount rates of the Federal Reserve Banks be increased before the seasonal expansion in private bank credit and additional Treasury deficit-financing gets under way. If at that time, business has continued to be good, then even if the outlook is less certain Federal Reserve officials will have to figure what the impact may be of the Treasury's deficit.

In sum total, however, I would not look for a relaxation in the present degree of credit restraint between now and then. This does not mean a complete absence of Federal Reserve purchases of Treasury bills and the like because, as I said earlier, higher interest rates, of themselves, would increase the degree by which credit policy is restrictive. After July we may be in for a breather or better prospects. The bulk of the Treasury's financing needs, except for Tax Anticipation bills, should be behind us and the prospective outlook for the budget might be improved, particularly if business continues good. If business is not so good then, as Mr. Martin said last week. credit policy may be relaxed or reversed.

That completes the general outline of my story and I now would like to say one word about your Treasury security portfolio.

You no doubt have gathered I believe there is a chance, over the next few months, that we may be building to a climax in the firming of short- and long-term interest rates. I also believe that a 3¼% coupon on a 25-30-year Government bond is pretty attractive for permanent investment. It is too bad that with all the commendable courage and determination shown by the Treasury, that some of the details and other aspects of the offering were not handled better. The result, however, is an opportunity for investors to adjust their holdings advantageously.

If I were managing your particular Treasury portfolio I would want to be sure I had a comfortable primary reserve position of Treasury securities that mature between now and December, 1954. I would want a comfortable secondary reserve composed of Treasury issues such as the 2⅜s and the 2½s of 1958, or the 2¼s 1959-62. I then would concentrate the balance of my holdings in the new 3¼s. To do so, I would go over the cost prices of my other holdings and figure out how much of a net loss, before and after taxes, might be involved in their sale. From such arithmetic I would determine how far I could afford to go in acquiring the new bond. I then would compare current income on the securities I hold and the increase in current income that might be obtained on the 3¼s. I would ignore the after-tax yields of the discount bonds that are computed on a long-term gains basis. These yields appear very attractive but the chances are good that as these bonds improve in price, either because of changes in bond market conditions or because of approaching maturity, the new 3¼s will show a comparable or larger price appreciation.

* * *

The principal points I have tried to make are these:

The key factors affecting interest rates are credit policy, fiscal policy and debt management. The triumvirate seeks a single goal—the promotion of economic stability at a high level of business activity. The three instruments are interdependent.

Credit policy is sound. The fiscal result is bad and compromises the position of the Treasury so that debt management cannot do its full share. A flexible credit policy must rest upon free markets for interest rates. These reflect the natural forces of supply and demand. The deficit financing securities of the Treasury must be looked upon as a natural force in the market place. This means higher interest rates over the near future.

The rules of the game under which credit policy and debt management will be conducted must be publicly understood if real success is to be achieved. Those for credit policy are well-known and amply clarified. Those for debt management under the new Treasury team are insufficiently clear.

Debt reconstruction of the publicly-held marketable debt is going to be a tough problem even though it concerns only $118 billion of the present debt. The Treasury's cash need during the balance of the calendar year will be large and will tend to prevent much progress in this area.

The treasury is to be commended for its courage and determination in tackling its problem so promptly even though the results have fallen somewhat short.

The new 3¼s should occupy a preferred position in most portfolios—including yours.

Sidney B. Hook With Witherspoon & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Sidney B. Hook has become associated with Witherspoon & Co., Inc., 215 West Seventh Street. Mr. Hook was formerly Manager of the Bond Department for the Los Angeles office of J. A. Hogle & Co. Prior thereto he was with Turner-Poindexter & Co. and conducted his own investment business in Los Angeles.

Form Keller Bros. Secs.

(Special to THE FINANCIAL CHRONICLE)

WEST ROXBURY, Mass.—Norton Keller and Harvey Keller have formed Keller Brothers Securities Co. with offices at 16 Sparrow Street to conduct a securities business. Both were formerly with Hodgdon & Co.

Income Funds Adds

(Special to THE FINANCIAL CHRONICLE)

NEW HAVEN, Conn.—Harry A. Chaucer is now with Income Funds, 152 Temple Street.

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The Security I Like Best

The important statistics are these:

Capitalization consists of: Debt due 1954-1957, $2,200,000; Common stock, 305,368 shares; Working capital on Dec. 31, 1952, $5,476,000; and Book value per share on Dec. 31, 1952, $24.90.

Nineteen fifty-two earnings were reported at $2.51 per share, and dividends of $1.20 per share, plus 5% in stock, were declared last year. Thus, the shares are available to yield better than 6% based on the regular cash dividend payments. While these figures are comforting, they are not unnecessarily exciting compared to the prices at which equities of other medium size companies are currently available. However, since the advent of new management in late 1951, it can be said that the company has embarked on a new period of expansion and diversification.

My optimism is based on:

(1) The 1952 annual report shows sales increased from $15,300,000 in 1951 to $25,100,000 in 1952.

(2) The company is the world's largest manufacturer of special design book matches. The growth of this stable division is being given new impetus by greater sales activities, new experiments and expansion into foreign markets.

(3) "Romance" is being added to the basic stability of the company through diversification into new fields. The widening activities are indicated by a $20 million backlog in research and production contracts in the Armament division. These items range from such pyrotechnics as igniters, flash bombs and parachute flares to gun shield enclosures and rocket launcher systems. With the aid of such contracts the company has been able to build up a large well-respected engineering staff. Its Schutter Candy division has been split-off in a separate corporation in order to increase efficiency and economy by concentrating all activities and management in their highly mechanized plant at Chicago. Its Ferguson Machine and Tool Company has been severely taxed by the demands of Universal's Armament Division and by other customers. The company has entered the field of electronics through its Unitronics, Inc. In addition, it has set up a research program in agricultural chemicals and has formed the Planetary Chemical Division.

(4) The 1952 provision for Federal income taxes amounted to $1,384,600 on pre-tax profits of $2,152,000, or an overall rate of 64%. If excess profits taxes had not been in effect, and assuming a 52% corporate rate, per share earnings would have been 34% higher, or $3.35 a share instead of the $2.51 reported.

(5) It is my understanding that earnings in the first quarter of 1953 were ahead of 1952.

It is my judgment that Universal shares at 19 represent good value, based on demonstrated earning power. I believe the shares will do well marketwise, particularly if excess profits taxes are repealed and after the new management has had a longer period to execute its aggressive expansion program.

Universal Match common is traded in the over-the-counter market.

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The Market . . . And You

ly people are searching both for bargains and for defensive type securities.

* * *

Convertible Preferreds for The Undecided

Because convertible preferred stocks combine some of the defensive characteristics of preferreds and some of the profit possibilities of commons they are more popular for the portfolios of the many people who are not sure which way our economy is trending. Among the more attractive issues in this field at present are:

Carrier Corp. $2; Mpls. Honeywell $3.75; Spencer Chemical $4.25; Fedders-Quigan $2.50; Sylvania Elec. $4.40; York Corp. $2.25; Cont'l. Can $4.25 2nd; Armstrong Cork $4; Gen'l. Tel. $2.375; Commonwealth Edison $1.32; Brooklyn Union Gas $2.00; Safeway Stores $4.50; Denver & Rio Grande $5, and St. Louis, San Fran. $5.

* * *

The belief that huge public works would be started if a recession threatened has created demand for cement and earth moving machinery stocks. Road building has not kept pace with highway use and it should be a fertile field for greater activity if bold steps are taken to check any future recession.

* * *

The Search for Bargains

About 40% of the stock groups are behaving better than average and it is interesting that two-thirds of those groups are selling lower in ratio to the market than they did back in the years 1935-39. This also suggests the search for bargain sections of the market. Included are auto trucks, soft drinks, confectionery, glass and metal containers, proprietary drugs, electric equipments, hard surface floor covering, carpets and rugs, biscuit bakers, corn refining, meat packers, packaged foods, U. S. golds, leather, construction and earth moving machinery, metal fabricators, printing and publishing, rail equipment, variety chains, shoes, sugar refiners, apparel, motion pictures, cigarettes and operating utilities.

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"Paging Joe Public"

and their 50,000 employees are pledged to serve the public with the highest standards of integrity and business conduct.

Nowhere is the probity of the Stock Exchange membership better demonstrated than in its solvency record. Since 1939 the record has been perfect. And thus far in the Twentieth Century the percentage of solvency is 99.74. This record is superior, by the way, to that of all United States banks which also have an almost perfect record.

Besides insuring high standards of business conduct and financial integrity among our members in their dealings with each other and the public, the New York Stock Exchange provides the public with:

(1) A continuous auction market for listed securities which can be bought or sold by anyone and at a price which is not determined by the Exchange but by those who employ the Exchange's facilities to actually buy and sell the securities of our great corporations. Prices are arrived at fairly and openly.

(2) An up-to-the-minute information service on market activity, in terms of price publicity and sales volume, which is superior to that of any other type of market.

(3) An efficient, economical and easily available market — it is as close as your telephone.

(4) Full disclosure of financial operations of listed companies which enables the public to make a sound judgment as to the merits of the securities they may wish to buy. It's amusing now to recall that in 1866 a leading railroad, in response to an inquiry from the Exchange asking for a financial report, replied that it "made no reports and published no statements and have not done anything of that kind for the last five years." That was one of the first responses to the Exchange's then daring requirement that listed companies must submit annual reports to stockholders.

The Exchange, of course, does not attempt to establish the value of any security listed for trading. We do insist, however, that a listed corporation make public information to enable the investor to judge for himself the merits of the security. As a result of our insistence upon more frequent corporate reports, 88% of all listed companies now publish quarterly statements of earnings. Incidentally, publication of quarterly earnings statements has been a listing requirement now for 26 years—and exceptions are made only when convincing evidence is presented that such reports would be impracticable or misleading.

For many years the Exchange has also required independent audits of all listed companies. We still work closely with the Committee on Cooperation of the American Institute of Accountants to improve accounting and auditing standards.

And the Exchange also insists that independent registrars be retained by all listed companies. That may sound technical but it really is not. In the last century it was common practice for a corporation to issue additional amounts of securities without bothering to notify the Exchange, their stockholders — or anybody else for that matter. As a result it was frequently a tight secret whether a company had 1,000,000 shares of stock outstanding or 5,000,000. Listed companies today must agree not to issue additional amounts of securities without Exchange approval.

(5) An opportunity to participate directly in corporate affairs through share ownership. Since 1926 the Exchange has refused to list non-voting stock and today 95% of all listed companies issue proxy statements to their stockholders.

(6) A list of securities admitted to dealings on the New York Stock Exchange which represents the backbone of the nation's industries. I think it's fair to say that the hallmark "listed on New York Stock Exchange" is today as significant and as meaningful as the sterling mark on silverware.

And just to mention one of the many other services of the Exchange, let me tell you a little story.

Counterfeiting of stock certificates at one time was a rather prevalent pastime—until the Stock Exchange established standards for engraving certificates by listed companies. The cooperation of listed companies in this direction has been so complete that only two counterfeiting attempts have been made in the past 20 years. The most recent case was in 1951 when a couple of gentlemen went to a Chicago bank and started to negotiate a loan on 20 corporate $1,000 debentures. The bank didn't like the look of the certificates and air mailed them to the New York trustee bank. The trustee immediately wired back that the certificates were counterfeits. The forgers were taken into custody—and the entire episode was concluded within 48 hours.

The Stock Ownership Survey

In view of the services which the Exchange provides for bringing the investor and industry together, we were disappointed last year to learn from the Brookings Survey, which was undertaken at our request, that only 6,500,000 individuals in the United States were direct share owners of publicly owned corporations.

But the Survey did give us a frame of reference within which we are laying our plans for the future. Estimates since then indicate that there are approximately 21,000,000 families in the United States who presently are financially able to purchase securities. This is about four times the number of families now owning securities. Eventually we hope to bring all these people into the share owner family.

In competing for the savers' dollar, we've a long way to go to catch up. A recent study by the National Industrial Conference Board, for instance, showed that insurance ownership, the most widely held of any investment asset, is reported by three-fourths of all the families in the country. The Board noted that about 70% of all families own bank accounts or cash equivalents such as savings or government bonds. On the other hand, the Board said ownership of publicly-held corporations ranges from only about 5% of the middle-income families to less than one-third of all families with incomes over $7,500. The Brookings figures corroborate these findings.

Let me illustrate: 20 or 25 years ago selling life insurance came under the head of hazardous occupations. An insurance salesman was likely to be greeted with the same enthusiasm reserved for the bill collector. The public had not accepted the idea of life insurance.

That change in the public attitude towards life insurance was not created overnight. It was the result of intelligent long-range planning by the insurance industry acting in their own enlightened interest.

I recently ran across some estimates which strengthen still more what I'm trying to say. The entire securities business, including the New York Stock Exchange, spends around $3,000,000 a year telling people about investment and share ownership. The insurance industry is reported to be spending about $22,000,000 annually to carry its story to the public; the savings and loan associations about $20,000,000. And, according to an estimate by the American Bankers Association, commercial banks plan to spend $61,000,000 during 1953, an increase of $13,000,000 over last year, in telling people about thrift, savings and expanding banking services.

Our immediate three-year target is to secure a net gain of 1,500,000 individual owners of shares in companies listed on the New York Stock Exchange. This annual rate of 500,000 new share owners is substantially in excess of that which we have enjoyed in recent years.

Now it's fine and dandy to have such a goal—but what are we going to do to achieve it? That's a pertinent question and to answer it properly opens up the entire future of the Exchange.

Four Point Program

We are embarked upon a concrete four-point program to further our objectives.

First, we must continue to press for the revision of those tax laws which are strangling the flow of equity capital and discouraging the broadening of the base of share ownership. We are urging a revision of the Capital Gains Tax Law. We believe it important that there be a reduction in the holding period from six months to three and a 50% cut in the present effective tax rate. We are urging that a start be made in the elimination of the double taxation of dividends.

Second, we must work for a revision of certain aspects of the Securities Exchange Act of 1934 and the Securities Act of 1933. The Securities Acts have now been on the statute books for almost two decades without significant change. In our opinion many improvements are desirable in the public interest. The Interstate and Foreign Commerce Committee of the House of Representatives is reviewing the administration of those laws by the Securities and Exchange Commission. A collateral benefit of this study we hope will be that the Committee and the SEC will re-appraise those Acts in the light of almost 20 years' experience and will recommend revisions which will remove unnecessary impediments to the raising of equity capital and at the same time retain the essential protection afforded to the public.

One change we have in mind is in the present requirement for a company seeking to sell securities to the public. Even a corporation whose securities are already registered with the SEC must prepare a detailed, complicated and costly document, called a prospectus. This document must be delivered to each prospective customer to whom a written offer of the security is made. I suspect it is the rare investor who is able to fight his way through one of these prospectuses—as a former SEC Commissioner said, you can lead an investor to a prospectus but you can't make him read it. Any informational document given an investor should be as readable and understandable as are most of the annual reports issued by listed corporations.

Third, we must carry forward and extend our research program to get pertinent facts about our industry on which to base future action. The Brookings Institution provided us with a blueprint of work accomplished and the work ahead of us—the number of people who own shares and the number who do not, their characteristics and investment preferences. This survey was a monumental task. It required the painstaking cooperation of 3,000 corporations who furnished detailed information about 4,000 stock issues and involved the preparation and handling of more than a quarter of a million tabulating cards. Obviously we cannot make such a survey every year. But we are working out a method of taking an abbreviated census of share owners annually.

I have in mind also the extension of such recent projects as our spot checks of investment motivation, our analysis of the cost of doing a commission business in securities, and our research into the efficiency with which we are conducting our business.

Finally, I am convinced that we must evolve an entirely new merchandising approach to the problem of channeling a realistic proportion of the savings of the public into the equity securities of our leading corporations. In our list of securities we have the soundest product in the world, a product that merits the best and most efficient merchandising. We can't use buggy-whip techniques in a mass-production economy.

Within the next month or so I hope to be able to report to our people in St. Louis, in New York and in the more than 400 other cities in which we're represented the results of a professional appraisal of our industry's merchandising problems—and specific recommendations to tackle these problems. This study will not provide, I need scarcely say, the ultimate answers. But we are breaking fresh ground.

Upon the results of this merchandising study may depend a momentous decision for the Stock Exchange—whether or not to establish a new department in the Exchange which would develop and coordinate merchandising techniques on behalf of our membership.

Right at this time, we are exploring the feasibility of making possible the purchase of listed stocks on a pay-as-you-go plan. A dozen or so years ago such a project might have been considered too radical for a conservative industry. But, since then I think we've shed some of our inhibitions. Today I believe we have a good chance of developing such a method to make it easier for more and more people to share directly in the ownership of our productive facilities.

It is somewhat paradoxical that I should have just implied that the Exchange's viewpoint is progressive and youthful. This evening's gathering for us is in the nature of a birthday party—next Sunday the Stock Exchange celebrates its 161st anniversary. These many years have taught us the pitfalls of the future, as well as the opportunities.

As we go forward with our program, we know we will be continually faced, as we have been in the past, with suggestions and innuendoes that it would be expedient for us to be a little less demanding—to shave a requirement here and to pare a regulation there, to lower our standards for the sake of expediency. But any move we might make to dilute the confidence we have rightly earned from the public and from industry would be tantamount to a betrayal of the high ideals of our business. Our responsibility is to raise our standards, not to lower them.

Let me leave you with this pledge. We are going to merchandise still more aggressively the necessity of investment. We are going to do our best to remove the many obstacles to the free flow of equity capital. We are intent not merely upon holding our own but upon increasing the stature of the New York Stock Exchange. But no matter how difficult our problems, no matter how intense the competition, we can never afford to forget that the 161-year-old cornerstone of our industry is integrity. We who are associated with the New York Stock Exchange are rightfully proud of that association. We will not tarnish the values upon which that pride rests.

Halsey, Stuart Offers Nickel Plate Ctfs.

Offering of $1,050,000 New York, Chicago and St. Louis Railroad second equipment trust of 1953, 3⅜% serial equipment trust certificates, maturing each Dec. 15, 1953 to 1967, inclusive, is being made today (Thursday) by Halsey, Stuart & Co. Inc. Subject to authorization by the Interstate Commerce Commission, the certificates are priced to yield from 2.65% to 3.50%, according to maturity.

The issue is to be secured by the following new standard-gauge railroad equipment estimated to cost $1,318,469: 175 70-ton all-steel covered hopper cars.

Bankers Offer Phila. EL. Co. Preferred Stock

A syndicate managed jointly by W. C. Langley & Co. and Glore, Forgan & Co. is offering today (May 14) 150,000 shares of Philadelphia Electric Co. 4.68% preferred stock, at $101.75 per share and accrued dividend. The group won award of the issue at competitive sale yesterday on its bid of $100.30 per share.

Net proceeds from the sale of the preferred stock, together with proceeds from the proposed sale of $30,000,000 of 1983 series bonds and 100,000 shares of common stock, will be applied toward the cost of the company's construction program. A portion of the proceeds will be used to retire $20,000,000 of short-term bank loans, incurred in connection with the construction program.

Philadelphia Electric Co. is engaged primarily in the production, distribution and sale of electricity and gas in southeastern Pennsylvania. It also supplies steam service in portions of central Philadelphia, engages directly in the sale of electric and gas appliances to its customers, and cooperates with appliance dealers in the sale of similar appliances. The electric service area of the company and subsidiaries includes about 1,552 square miles, with an estimated population of about 3,000,000.

For the 12 months ended Feb. 28, 1953, the company reported consolidated operating revenues of $177,344,832; gross income of $34,143,729, and net income of $27,687,960, equal, after preferred dividends, to $2.23 per common share. Of total operating revenues in the recent 12 months, 85% was derived from electric, 13% from gas and 2% from steam business.

Harry J. Wilson Adds

(Special to The Financial Chronicle)

CHICAGO, Ill. — Paul Pihlstrand, Jr. has joined Harry J. Wilson & Co., 208 South La Salle Street. He was previously with Barcus, Kindred & Co.

Two With Renyx, Field

(Special to The Financial Chronicle)

NEW ORLEANS, La.—Jesse C. Crump and Charles H. Finch have become connected with Renyx, Field & Co., Inc.

With Chas. A. Day Co.

(Special to The Financial Chronicle)

BOSTON, Mass. — Charles P. Lawrence has joined the staff of Chas. A. Day & Co., Inc., Washington at Court Street, members of the Boston Stock Exchange.

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)	May 17	§100.5	*100.2	98.8	101.2
Equivalent to—					
Steel ingots and castings (net tons)	May 17	§2,266,000	*2,259,000	2,228,000	2,102,000
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output—daily average (bbls. of 42 gallons each)	May 2	6,276,150	6,278,300	6,341,250	6,295,800
Crude runs to stills—daily average (bbls.)	May 2	¶6,949,000	6,827,000	6,965,000	
Gasoline output (bbls.)	May 2	23,322,000	23,159,000	22,401,000	Not
Kerosene output (bbls.)	May 2	2,674,000	2,665,000	2,605,000	Available
Distillate fuel oil output (bbls.)	May 2	10,012,000	9,666,000	10,169,000	(Strike)
Residual fuel oil output (bbls.)	May 2	8,457,000	8,859,000	8,593,000	
Stocks at refineries, bulk terminals, in transit, in pipe lines—					
Finished and unfinished gasoline (bbls.) at	May 2	157,599,000	157,990,000	162,249,000	Not
Kerosene (bbls.) at	May 2	20,040,000	19,433,000	18,760,000	Available
Distillate fuel oil (bbls.) at	May 2	61,314,000	*60,343,000	59,723,000	(Strike)
Residual fuel oil (bbls.) at	May 2	38,989,000	39,034,000	39,998,000	
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	May 2	781,499	779,804	704,517	744,724
Revenue freight received from connections (no. of cars)	May 2	682,457	675,261	661,649	650,329
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	May 7	$252,625,000	$373,113,000	$195,113,000	$315,093,000
Private construction	May 7	152,466,000	185,125,000	101,479,000	145,158,000
Public construction	May 7	100,159,000	187,988,000	93,634,000	169,935,000
State and municipal	May 7	79,359,000	162,392,000	63,088,000	119,605,000
Federal	May 7	20,800,000	25,596,000	30,546,000	50,330,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	May 2	8,750,000	*9,000,000	7,070,000	8,552,000
Pennsylvania anthracite (tons)	May 2	587,000	511,000	311,000	848,000
Beehive coke (tons)	May 2	116,000	*121,100	113,300	79,900
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1947-49 AVERAGE = 100	May 2	113	104	118	111
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	May 9	7,896,539	7,938,823	8,001,165	7,039,438
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET, INC.	May 7	165	169	140	161
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	May 5	4.376c	4.376c	4.376c	4.131c
Pig iron (per gross ton)	May 5	$55.26	$55.26	$55.26	$52.72
Scrap steel (per gross ton)	May 5	$38.83	$39.33	$43.92	$42.00
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	May 6	29.675c	29.675c	29.700c	24.200c
Export refinery at	May 6	29.925c	30.175c	34.450c	27.425c
Straits tin (New York) at	May 6	100.000c	95.000c	116.500c	121.500c
Lead (New York) at	May 6	12.500c	12.500c	13.500c	17.000c
Lead (St. Louis) at	May 6	12.300c	12.300c	23.300c	16.800c
Zinc (East St. Louis) at	May 6	11.000c	11.000c	11.000c	19.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	May 12	92.04	92.01	93.96	99.26
Average corporate	May 12	103.80	104.14	106.21	110.34
Aaa	May 12	106.92	107.44	109.42	114.46
Aa	May 12	105.86	106.04	108.34	113.12
A	May 12	103.13	103.47	105.52	109.42
Baa	May 12	99.68	100.16	102.13	104.48
Railroad Group	May 12	102.13	102.63	104.48	107.62
Public Utilities Group	May 12	103.13	103.47	105.69	109.60
Industrials Group	May 12	106.21	106.50	108.88	113.70
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	May 12	3.08	3.09	2.93	2.55
Average corporate	May 12	3.52	3.50	3.38	3.15
Aaa	May 12	3.34	3.31	3.20	2.93
Aa	May 12	3.40	3.39	3.26	3.00
A	May 12	3.56	3.54	3.42	3.20
Baa	May 12	3.77	3.74	3.62	3.48
Railroad Group	May 12	3.62	3.59	3.48	3.30
Public Utilities Group	May 12	3.56	3.54	3.41	3.19
Industrials Group	May 12	3.38	3.36	3.23	2.97
MOODY'S COMMODITY INDEX	May 12	415.9	420.7	415.0	432.9
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	May 2	341,666	184,365	364,392	256,873
Production (tons)	May 2	254,917	245,157	251,974	199,614
Percentage of activity	May 2	97	95	95	82
Unfilled orders (tons) at end of period	May 2	539,033	454,897	567,535	417,564
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1949 AVERAGE = 100	May 8	106.47	106.60	107.06	109.75
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	Apr. 25	31,308	26,849	30,121	26,355
Number of shares	Apr. 25	866,522	752,077	879,588	808,378
Dollar value	Apr. 25	$38,550,080	$32,580,065	$39,530,066	$36,359,544
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Apr. 25	27,724	24,910	29,754	22,895
Customers' short sales	Apr. 25	272	238	237	177
Customers' other sales	Apr. 25	27,452	24,672	29,517	22,718
Number of shares—Total sales	Apr. 25	777,027	699,451	835,151	657,482
Customers' short sales	Apr. 25	11,444	10,682	6,742	8,064
Customers' other sales	Apr. 25	765,583	688,769	828,409	649,418
Dollar value	Apr. 25	$31,423,632	$27,679,814	$32,488,279	$28,108,492
Round-lot sales by dealers—					
Number of shares—Total sales	Apr. 25	251,720	208,640	281,920	168,040
Short sales	Apr. 25	-----	-----	-----	-----
Other sales	Apr. 25	251,720	208,640	281,920	168,040
Round-lot purchases by dealers—					
Number of shares	Apr. 25	319,280	258,050	308,160	348,230
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	Apr. 18	292,080	347,920	332,590	299,230
Other sales	Apr. 18	7,389,220	10,663,640	9,567,570	8,376,490
Total sales	Apr. 18	7,681,300	11,011,560	9,900,160	8,675,720
ROUND-LOT TRANSACTIONS FOR ACCOUNT OF MEMBERS, EXCEPT ODD-LOT DEALERS AND SPECIALISTS:					
Transactions of specialists in stocks in which registered—					
Total purchases	Apr. 18	734,940	1,159,190	925,920	944,200
Short sales	Apr. 18	137,410	163,040	165,480	157,040
Other sales	Apr. 18	646,220	963,710	787,890	837,200
Total sales	Apr. 18	783,630	1,126,750	953,370	994,240
Other transactions initiated on the floor—					
Total purchases	Apr. 18	197,980	328,500	316,760	230,800
Short sales	Apr. 18	12,900	22,500	12,000	24,400
Other sales	Apr. 18	224,830	354,150	302,230	283,300
Total sales	Apr. 18	237,730	376,650	314,230	307,700
Other transactions initiated off the floor—					
Total purchases	Apr. 18	259,705	349,335	351,025	327,365
Short sales	Apr. 18	60,190	47,390	69,170	41,200
Other sales	Apr. 18	323,010	386,065	367,795	419,125
Total sales	Apr. 18	383,200	433,455	436,965	460,325
Total round-lot transactions for account of members—					
Total purchases	Apr. 18	1,192,625	1,837,025	1,593,705	1,502,365
Short sales	Apr. 18	210,500	232,930	246,650	222,640
Other sales	Apr. 18	1,194,060	1,703,925	1,457,915	1,539,625
Total sales	Apr. 18	1,404,560	1,936,855	1,704,565	1,762,265
WHOLESALE PRICES, NEW SERIES — U. S. DEPT. OF LABOR — (1947-49 = 100):					
Commodity Group—					
All commodities	May 5	110.0	110.0	109.6	111.5
Farm products	May 5	99.5	99.3	98.6	107.9
Processed foods	May 5	104.7	105.3	103.6	108.3
Meats	May 5	92.3	94.7	88.6	113.1
All commodities other than farm and foods	May 5	113.3	113.3	113.2	112.9

*Revised figure. ¶Includes 701,000 barrels of foreign crude runs. §Based on new annual capacity of 117,547,470 tons as of Jan. 1, 1953 as against the Jan. 1, 1952 basis of 108,587,670 tons.

	Latest Month	Previous Month	Year Ago
ALUMINUM (BUREAU OF MINES):			
Production of primary aluminum in the U. S. (in short tons)—Month of March	104,460	92,649	77,069
Stocks of aluminum (short tons) end of Mar.	15,257	10,502	11,171
AMERICAN GAS ASSOCIATION—For month of March:			
Total gas (M therms)	5,384,678	5,375,765	5,344,248
Natural gas sales (M therms)	5,023,675	5,006,808	4,967,096
Manufactured gas sales (M therms)	108,410	111,716	151,261
Mixed gas sales (M therms)	252,593	257,241	225,891
COTTON GINNING (DEPT. OF COMMERCE)			
Running bales final report	14,950,999	-----	15,071,552
COTTON SEED AND COTTON SEED PRODUCTS—DEPT. OF COMMERCE—Month of March:			
Cotton Seed—			
Received at mills (tons)	38,317	*99,655	55,150
Crushed (tons)	479,620	*549,969	432,902
Stocks (tons) March 31	949,436	*1,390,739	801,752
Crude Oil—			
Stocks (pounds) March 31	147,853,000	*170,739,000	162,209,000
Produced (pounds)	165,269,000	*180,541,000	143,727,000
Shipped (pounds)	183,043,000	*187,305,000	149,443,000
Refined Oil—			
Stocks (pounds) March 31	812,596,000	*723,763,000	*413,893,000
Produced (pounds)	170,577,000	*173,738,000	136,955,000
Consumption (pounds)	90,754,000	*99,752,000	*107,399,000
Cake and Meal—			
Stocks (tons) March 31	208,612	*210,115	47,336
Produced (tons)	231,782	*262,173	201,182
Shipped (tons)	233,285	*246,296	210,022
Hulls—			
Stocks (tons) March 31	84,479	*64,807	36,325
Produced (tons)	105,670	*121,274	99,628
Shipped (tons)	87,998	*109,803	108,251
Linters (running bales)—			
Stocks March 31	197,301	*276,352	256,261
Produced	152,408	*174,391	*140,036
Shipped	231,459	*189,032	*121,696
Hull Fiber (1,000-lb. bales)—			
Stocks March 31	1,612	1,544	1,224
Produced	1,377	768	851
Shipped	1,309	866	1,098
Motes, Grabbots, etc. (1,000 pounds)—			
Stock March 31	13,379	*12,845	8,579
Produced	2,916	*3,181	2,808
Shipped	2,382	2,956	2,490
DEPARTMENT STORE SALES (FEDERAL RESERVE SYSTEM — 1947-49 Average=100)—Month of April:			
Adjusted for seasonal variations	107	113	103
Without seasonal adjustment	103	103	103
EMPLOYMENT AND PAYROLLS—U. S. DEPT. OF LABOR—REVISED SERIES—Month of February:			
All manufacturing (production workers)	13,729,000	*13,605,000	12,949,000
Durable goods	8,117,000	*8,014,000	7,465,000
Nondurable goods	5,612,000	*5,591,000	5,484,000
Employment Indexes (1947-49 Avge.=100)—			
All manufacturing	111.0	*110.0	104.7
Payroll Indexes (1947-49 Average=100)—			
All manufacturing	149.2	*147.4	132.0
Estimated number of employees in manufacturing industries—			
All manufacturing	17,002,000	*16,867,000	16,045,000
Durable goods	9,982,000	*9,870,000	9,198,000
Nondurable goods	7,020,000	*6,997,000	6,847,000
METAL PRICES (E. & M. J. QUOTATIONS)—Average for month of April:			
Copper (per pound)—			
Electrolytic domestic refinery	29.902c	29.289c	24.200c
Electrolytic export refinery	32.863c	34.451c	27.425c
Lead (per pound)—			
Common, New York	12.683c	13.404c	18.923c
Common, St. Louis	12.473c	13.204c	18.723c
Silver and Sterling Exchange—			
Silver, New York (per ounce)	85.250c	85.250c	88.000c
Silver, London (pence per ounce)	74.000d	74.000d	77.000d
Sterling Exchange (Check)	$2.81682	$2.81605	$2.80722
Zinc (per pound)—East St. Louis	11.000c	11.029c	19.500c
Tin (per pound)—			
New York Straits	102.115c	121.442c	121.500c
§§New York, 99% min	101.115c	120.442c	120.500c
Gold (per ounce, U. S. price)	$35.000	$35.000	$35.000
Quicksilver (per flask of 76 pounds)	$195.885	$198.115	$203.769
¶Antimony (per pound) (E. & M. J.)	37.970c	37.970c	52.196c
Antimony (per pound) bulk, Laredo	34.500c	34.500c	48.846c
Antimony (per pound) in cases, Laredo	35.000c	35.000c	49.346c
Platinum, refined (per ounce)	$90.000	$90.000	$90.000
†Cadmium (per pound)	$2.00000	$2.00000	$2.55000
‡Cadmium (per pund)	$2.07500	$2.07500	$2.67500
§Cadmium (per pound)	$2.15000	$2.15000	$2.80000
Cobalt, 97%	$2.40000	$2.40000	$2.40000
Aluminum, 99% plus, ingot (per pound)	20.500c	20.500c	19.000c
Magnesium, ingot (per pound)	27.000c	26.423c	24.500c
**Nickel	60.000c	60.000c	56.500c
NEW CAPITAL ISSUES IN GREAT BRITAIN—MIDLAND BANK, LTD.—Month of April	£136,402,000	£27,783,000	£157,743,000
PORTLAND CEMENT (BUREAU OF MINES)—Month of March:			
Production (barrels)	20,215,000	17,325,000	18,095,000
Shipments from mills (barrels)	20,813,000	14,155,000	15,993,000
Stocks (at end of month—barrels)	23,866,000	24,464,000	26,622,000
Capacity used	84%	80%	78%
RAILROAD EARNINGS—CLASS I ROADS (ASSOCIATION OF AMERICAN RRs.)—Month of March:			
Total operating revenues	$919,617,231	$812,968,411	$875,588,241
Total operating expenses	696,913,884	621,092,495	675,230,735
Operating ratio	75.78	76.40	77.12
Taxes	$111,006,692	$96,867,078	$109,462,701
Net railway operating income before charges	93,569,682	77,799,924	76,764,004
Net income after charges (estimated)	72,000,000	57,000,000	52,000,000
UNITED STATES GROSS DEBT DIRECT AND GUARANTEED—(000's omitted):			
As of April 30	$264,542,181	$264,536,057	$258,336,729
General fund balance	3,581,886	6,908,220	5,393,398
Net debt	$260,960,295	$257,627,837	$252,943,331
Computed annual rate	2.389%	2.385%	2.309%
WINTER WHEAT AND RYE—U. S. DEPT. OF AGRICULTURE—As of May 1, 1952:			
Winter wheat—Production (000's omitted)	729,884	714,154	1,052,801
Rye—Production	15,142		15,910

*Revised figure. †Based on the producers' quotation. ‡Based on the average of the producers' and platers' quotations. §Average of quotation on special shapes to platers. ¶Domestic, 5 tons or more but less than carload lot, boxed. §§Price for tin contained. **F.o.b. Port Colbourne, U. S. duty included.

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Permanent Preparedness—A New Economic Factor

the effect of "the gap" on personal incomes may, in part, be offset or cushioned off. Whether or not this happens might depend upon available public information and response, i.e., in what the government is willing to make known about the slow-down in spending upon the near-completion of the mobilization base.

We'll Have a Period of "Permanent Preparedness"

I am now coming to the third phase of preparedness about which there is but slight awareness. This is the phase that deals with the future, following the completion of the mobilization base. In the future we are going to play a bigger role in the community of nations. We have not sought this role, certainly not by a policy of foreign expansion. This new role was conceded to us, or, one might say, thrust upon us by the events of history. The Korean incident brought the issue of world leadership to a test and we have accepted it. The result is, so it appears now, permanent preparedness. There is a new trend that underlies the concept of national security that will require a more substantial and regular flow of future expenditures for preparedness. The standby plant is only a beginning. It will require maintenance and, the chances are, further expansion.

First of all, there are certain phases of the stand-by plant that will have to be supported after the initial goals have been met. A system of maintenance to keep the facilities in high gear is a minor phase of this activity. Stock piling of raw materials after the build-up period is another; and so are the aspects of manpower requirements for technical personnel and civil defense readiness. Most important, however, will be further improvements of tools and equipments. There is currently a new competitive pace in rearmament that is a result of world political conditions and consequences of World War II. The chances are that the armament industry in its present setting of preparedness may assume a pace of a fairly regular flow in which output and displacement are adapted to the dictates of continuous long-run scientific improvements. The test of this process is calculated, of course, on principles of mechanical efficiency and not on the gamut of the market, which renders the accounting an item of special significance. There would no longer be an unexpected and hastily prepared emergency action that bears abruptly on the economy. Nor would there be the alerted attention regarding uncertainties when the wave of military spending declines. Instead, the tendency of flow in armament would tend to tie in directly with the economy and move along on an institutional pattern. In essence, preparedness would amount to a new trend, a new overhead for the economy, which will become even more important in the general social scheme of production than it is now.

Our Economy Cannot Stand a Deflation

There is one thing that is certain about our economy. It cannot stand a deflation, much less an inflation. The course of economic action should be one of growth of relative stable growth that will permit confidence in our institutions: of how we live and work and cooperate and improve our work relationships. Right now we are on our way to strengthen our basic social values in that we shall again place primary emphasis on self-reliance, opportunity, and growth. These are the elements upon which a progressive society depends for its most cherished institution, that of economic freedom. We must be free in order to have growth and development. Necessarily, there are additional standards of social value without which we cannot do. These are continuity, stability and security of income and employment. An urban society cannot get on and grow and develop without reasonable stability. A reasonably free equilibrium in our economic relationship should make it possible for us to have both sets of social values—growth and relative stability. That would be ideal, of course, but is possible of attainment. The fundamental element of self-reliance plus social intelligence must be set to work to attain that goal.

Since Korea, there is a renewed consciousness about our role as a principal in world politics, and an awareness that the business of the world is never finished. The real question is how much can we do, or how much can we contribute toward solving world problems without getting hurt in the bargain. The creation of the world, so it was said by Plato, is the victory of persuasion over force. And that wise fellow was wise enough to look at that process in a relative sense—in that recourse to force may be unavoidable. The new mobilization base will serve either persuasion or force. There is no foreseeing the immediate outcome in what we might have to face eventually. We are certain only of one thing—that the problem of national security calls for a balanced Federal budget; that we stabilize the sources of public revenue; that we manage more efficiently in government; and that we persuade ourselves that the new overhead cost will pay out on a permanent basis. Not so long ago it paid out for Britain. We expect to do a better job than they did.

Conclusion

In this paper, I set out to analyze the impact of the leveling-out process of spending for mobilization. There may be one, but the chances are that it will not be on the program for preparedness. The leveling-out is most likely to come in the real income for civilian consumption. At least so it looks now. This income will not increase at the rate of increasing productivity because the additional increment of man-hour-output will be swallowed by the cost of increased preparedness. This is not a cheerful outlook, but it is and will prove less costly than inadequate preparedness or preparedness under inflation or deflation. It is, therefore, imperative that we keep our house in order and have stable work relationships.

It is most important that we be able to live with ourselves; that we have industrial peace, if we wish to tell others what they had better do. Ultimately, the issue is one of faith in the character of our citizenry and confidence in the competency of our political leadership.

Shearson, Hammill Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Mark W. Kosterman is with Shearson, Hammill & Co., 520 South Grand Avenue. He was previously with Daniel Reeves & Co.

Municipal Club Hopes To Broaden Market

Announcement from the Municipal Bond Club of New York in connection with their Annual Field Day on June 12 at the Westchester Country Club and Beach Club, Rye, New York, indicates that the club thru the medium of their annual humorous publication the "Bond Crier" will make a concerted effort to find new outlets for the continuing heavy volume of State and Municipal Bond issues. Following the "tune" of some recent articles in the daily press and certain monthly bank journals, one of the lead articles in this year's issue of the "Bond Crier" will be entitled "What Every Wife Should Know About Municipals." Perhaps a "new look" will be possible with this approach to the members of the family reputed to hold the purse strings.

The announcement of the "Bond Crier" was made today by distribution of a humorous "flyer" depicting the difficulties of communication which often face syndicate managers in staid old Wall Street as they conduct their professional operations with associates on the "new frontier" of the West Coast.

The flyer says that "no man in his right mind would miss reading the Bond Crier," and suggests that anyone who wishes may subscribe by sending $1 to The Circulation Mgr., William J. Carrington of Ira Haupt and Co., 111 Broadway, New York 6, New York. William J. Riley of Drexel and Co., 14 Wall Street, New York 5, N. Y., Committee Chairman of this year's edition, promises at least 20 pages of stories, ads, cartoons and pictures which he says will be of interest to every Municipal-sales-man-trader-investor-official and advisor all over the country.

Sports events scheduled for the outing are golf, with prizes awarded for the first three low gross scores (members), first three low net scores (members), low gross and runner-up (guests); low net and runner-up (guests); longest drive (on a selected hole), and nearest-the-pine (on a selected hole). There will also be a special golf two-some "pay-off" operating under the I. B. A. handicap system.

Tennis, round-robin doubles tournament, under the direction of Daniel O'Day, Northern Trust Company, will start at 10 a.m. with prizes for winners and runners up. Prizes will be awarded for teams finishing first, second and third at horseshoe pitching, the contest under the direction of James Ransom, Harris Trust & Savings Bank.

A softball game, "Dealers vs. Bankers" will be played at 3 p.m., organized by John Stafford, Lee Higginson Corp., and prizes will be awarded to stars of both teams.

A duplicate bridge tournament, teams of four or pair match, will be run from 1 to 3 p.m. at the Main Club. Prizes for winners.

Pool and Sound bathing will be available all day to guests and members at the Beach Club, situated about three miles from the main club.

A cocktail party given by the Board of Governors will be held from 5:30 to 7, followed by dinner. The annual meeting of the Club will be held at 2 p.m. and the 1953-54 officers will be installed at that time.

Members of the field day committee are: David H. Callaway, Jr., First of Michigan Corporation, Chairman; Philip M. Hiss, First National Bank of Chicago; Roald A. Morton, The Blue List Publishing Co., William J. Riley, Drexel & Co., and Joseph F. Vandernoot, R. W. Pressprich & Co., sub-chairmen; Douglas D. Ballin, Hannahs, Ballin & Lee; William G. Carrington, Jr., Ira Haupt & Co.; L. Walter Dempsey, B. J. Van Ingen & Co., Inc.; William A. Devlin, Reynolds & Co.; William F. Dore, Halsey, Stuart & Co.; Walton R. Dunn, Mackey, Dunn & Co.; Edward N. Ganser, First of Michigan Corp.; Robert M. Goodwin, National City Bank of New York; C. M. Haight, Jr., Tripp & Co.; William T. Hall, Jr., Bond Buyer; James M. Heller, J. C. Bradford & Co.; G. Seaver Jones, Bankers Trust Company; Robert R. Krumm, W. H. Morton & Co., Inc.; Martin J. McAndrews, Hemphill, Noyes & Co.; William P. McKay, Blue List Publishing Co.; Albert J. Milloy, First Boston Corp.; Henry Milner, R. S. Dickson & Co., Inc.; Daniel O'Day, Northern Trust Company; Charles A. Peine, Tucker, Anthony & Co.; James M. Ranson, Harris Trust & Savings Bank; John W. Reno, Schoellkopf, Hutton & Pomeroy; Kenneth J. Sickler, Chase National Bank; John H. Stafford, Lee Higginson Corp.; Fred D. Stone, Jr., Marine Trust Co. of Western New York; Joseph Vostal, Kidder, Peabody & Co.; Myles G. Walsh, Blyth & Co. Inc.; Joseph B. Wise, Weeden & Co.; Paul W. Wolf, Harris Trust & Savings Bank.

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Mutual Funds

30 cents per share, the ninth consecutive semi-annual payment in that amount.

Net capital gains realized during the first six months of fiscal 1953 amounted to $594,851, and total unrealized appreciation increased $1,276,664 in the six months to $6,949,725.

Portfolio Changes—Since Sept. 30, 1952, the following issues have been added to or eliminated from the Primary List for investment:

ADDITIONS

Alleghany Corp. S. F. Deb. "A" 5s, 1962.
Pittsburgh & W. Va. Ry. Co. 1st "A" 4½s, 1958.
Pittsburgh & W. Va. Ry. Co. 1st "B" 4½s, 1959.
Pittsburgh & W. Va. Ry. Co. 1st "C" 4½s, 1960.

ELIMINATIONS

Chic. & No. West. Ry. Co. 2nd Conv. Inc. "A" 4½s, 1999.
Denver & Rio Grande Western RR. Co., Inc. "A" 4½s, 2018.
Hudson Coal Co. 1st 5s, 1962.
Maine Central RR. Co. Conv. Gen. "A" 4½s, 1960.

Keystone Fund S1 reported total assets of $4,846,000 invested in 42 high-grade common stocks on March 31, 1953, compared with $4,454,000 of assets 12 months earlier. Most of this 9% growth in assets was accounted for by the 7.5% increase in the number of shares outstanding—to 138,500 from 128,800.

The net asset value per share moved up slightly from $34.57 to $34.98. Adjusting for the $1.70 per share distribution from capital gains last September, the gain for the year was 6%. The latest dividend from investment income was at the rate of 70 cents per share, compared with 73 cents six months earlier—the reduction being entirely due to the fact that the per-share working assets were reduced by 4.8% because of the payment out of capital gains in September, 1952.

Profits realized from the sale of securities in the first six months of fiscal 1953 amounted to $108,305, and total unrealized appreciation in the portfolio increased slightly to $1,080,385.

Portfolio Changes—Since Sept. 30, 1952, the following common stocks have been eliminated from or added to the Primary List for investment:

ADDITIONS

Aetna Life Insurance Co.
Atchison, Topeka & Santa Fe Ry. Co.
Owens-Illinois Glass Co.
Texas Gulf Sulphur Co.

ELIMINATIONS

American Cyanamid Co.
Kresge (S. S.) Co.
Norfolk & Western Ry. Co.
United Fruit Co.

LORD, ABBETT & Company reports to dealers that charges made by Guaranty Trust Company of New York for its services and out-of-pocket expenses as agent in reinvesting quarterly dividends on Affiliated Fund and American Business Shares will be reduced from 50c to 40c per account. The company effected a reduction a year earlier on these reinvestment transactions from 60c to 50c. On the next dividend rate the two mutual funds will have an estimated 10,000 shareholders in their reinvestment plans, Lord, Abbett reported.

DODGE & COX Fund has instituted a Dividend Reinvestment Plan and a Periodic Investment Plan. Both arrangements are available through the Wells Fargo Bank and Union Trust Company.

THE RECENTLY organized Value Line Income Fund, Inc., reported an increase in total net assets from $116,000 at the beginning of September, 1952, to over $2,000,000 as of April 30, 1953. As of March 31, 1953, the Fund's assets were invested in: common stocks, 91.2%; preferred stocks, 7.8%; cash and receivables, 1.0%.

"DID YOU overlook $13,500 the last time you added up your assets?" asks Hugh W. Long and Co., Inc., underwriter and investment advisor to Diversified Investment Fund and other mutual funds.

The Long organization's latest bulletin entitled "What Is Social Security Worth To You—In Dollars?" gives lump sum values of various Social Security benefits by viewing them as the equivalent of 10 year, non-refund annuities. On this basis, the bulletin points out, the value of maximum Social Security rights of a retired worker and wife over 65 is about $13,500. Other types of benefits and values are set forth in the bulletin.

"Social Security," says the bulletin, "is one of the pillars of any family's 'financial house.' Others are insurance, savings and investments."

NATIONAL SECURITIES Series sales for fiscal year ending April 30 were reported at a record high of $41.8 million. This was the largest fiscal year sales in history of the company, according to figures just released by E. Waln Hare, Vice-President, National Securities & Research Corporation, and represent a 46% increase over 1952 sales.

During the period the number of shareowners increased from 53.8 to 65.8 thousand and number of shares outstanding now total 23.5 million.

Total net assets of the National Securities Series were at a new year-end high of $122.4 million up 31% from a year ago.

THE FIRST six months' report of Natural Resources of Canada Fund, Inc. for the period ended March 31, shows net assets of $1,468,972, a gain over the $107,238 of net assets of the Fund when shares were offered initially to the public generally on June 4, 1952. The number of shareholders increased from 24 on June 4, 1952 to 2,081 on March 31 last and the number of shares outstanding now totals 486,927,722.

Frank L. Valenta, President, in his remarks to stockholders said that 31.07% of the Fund's net assets are in the securities of oil and gas companies with 7.11% in iron ore, 5.74% in nickel, 10.94% in gold, 9.11% in other metals, and the balance in other resource fields.

"Canada" Mr. Valenta continued, "will continue its remarkable growth. The dawn of peace should only accelerate that growth. Canada today, even though its oil output has soared, can only supply a small part of its petroleum requirements. As new pipe lines are built, Canadian oil fields will supply more petroleum and natural gas to the Dominion as well as to the United States.

Securities Now in Registration

★ INDICATES ADDITIONS SINCE PREVIOUS ISSUE
• ITEMS REVISED

Aberdeen Idaho Mining Co., Wallace, Idaho
March 30 (letter of notification) 100,000 shares of non-assessable common stock. **Price** — 15 cents per share. **Proceeds** — To develop mining claims. **Underwriter** — Wallace Brokerage Co., Wallace, Idaho.

ACF-Brill Motors Co., Philadelphia, Pa.
April 20 filed 215,360 shares of common stock (par $2.50) and 44,303.5 common stock subscription warrants. **Price**—At prices not less than 50 cents per share of stock and 25 cents per warrant below current market. **Proceeds**—To Allen & Co., New York. **Underwriter**—None.

★ **ACF-Brill Motors Co.**
May 5 (letter of notification) 4,651 shares of common stock (par $2.50). **Price**—At the market (about $4.87½ per share). **Proceeds**—To Marc Haas, a director, who is the selling stockholder. **Underwriter**—None.

★ **Acryvin Corp. of America, Inc.**
May 7 (letter of notification) 3,000 shares of common stock. **Price**—At market (about $2 to $2½ per share). **Proceeds**—To Nash S. Eldridge, the selling stockholder. **Office**—464-72 East 99th St., Brooklyn 12, N. Y. **Underwriter**—Eisele & King, Libaire, Stout & Co., New York.

Acteon Gold Mines Ltd., Vancouver, B. C., Can.
April 22 filed 250,000 shares of common stock (no par). **Price**—$1 per share (net to company). **Proceeds** — To purchase equipment and supplies. **Underwriter**—M. H. B. Weikel, Los Angeles, Calif.

Air Reduction Co., Inc., New York
April 24 filed 200,000 shares of common stock (no par) to be offered under "Interests in Employee Stock Investment Plan." **Proceeds**—For general corporate purposes. **Underwriter**—None.

Aluminium Ltd.
March 30 filed 818,657 shares of capital stock (no par) being offered for subscription by stockholders of record on April 24 at rate of one new share for each 10 shares held; rights to expire on May 15. **Price**—$33.50 Canadian dollars; or $34 U. S. dollars. **Proceeds**—For expansion program. **Dealer Managers**—The First Boston Corp. and White, Weld & Co. to head group in United States; and A. E. Ames & Co., Ltd. to head group in Canada. Statement effective April 20.

★ **American Automobile Insurance Co. (6/2)**
May 13 filed 125,000 shares of capital stock (par $4) to be offered for subscription by stockholders on or about June 2 on the basis of one new share for each four shares held. **Price**—To be supplied by amendment. **Proceeds**—For working capital **Office**—St. Louis, Mo. **Underwriter**—Kidder, Peabody & Co., New York.

★ **American Gas & Electric Co. (6/9)**
May 13 filed 800,000 shares of common stock (par $5). **Proceeds**—To be invested in operating subsidiaries. **Underwriters**—To be determined by competitive bidding. Probable bidders: First Boston Corp.; Union Securities Corp.; Blyth & Co., Inc., and Goldman, Sachs & Co. (jointly). **Bids** — Tentatively scheduled to be received up to 11 a.m. (EDT) on June 9 at 30 Church St., New York 8, N. Y.

★ **American National Finance Co.**
May 12 (letter of notification) not exceeding 15,000 shares of common stock (no par) to be offered about May 29, for subscription by common stock holders of record May 15, at the rate of one new share for each three shares held (with an oversubscription privilege); rights to expire June 22. **Price**—$10 per share. **Proceeds**—For working capital. **Office**—47 Fulton St., Newark 2, N. J. **Underwriter**—None.

Arkansas Fuel Oil Corp., Shreveport, La.
May 1 filed $23,000,000 of sinking fund debentures due 1973 to be offered at rate of $10.60 principal amount of debentures in exchange for each share of 6% cumulative preferred stock (par $10) of Arkansas Natural Gas Corp. In lieu thereof, preferred stockholders may elect to take cash. **Proceeds**—To retire said preferred stock. **Underwriter** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp. and Lazard Freres & Co. (jointly); Equitable Securities Corp.; Smith, Barney & Co.; Blyth & Co., Inc. **Offering**—Expected early in June.

Arkansas Louisiana Gas Co. (5/25)
April 22 filed $35,000,000 of first mortgage bonds due 1978. **Proceeds**—To repay $24,500,000 bank loans and for new construction, etc. **Underwriters**—To 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. **Bids**—Expected to be received up to noon (EDT) on May 25.

★ **Arkansas Power & Light Co. (6/8)**
May 7 filed $18,000,000 of first mortgage bonds due 1983. **Proceeds**—To repay bank loans and for new construction. **Underwriter** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers and Stone & Webster Securities Corp. (jointly); The First Boston Corp.; White, Weld & Co.; Equitable Securities Corp. and Central Republic Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane and Union Securities Corp. (jointly). **Bids**—Tentatively expected to be received on June 8.

Armstrong Rubber Co.
March 31 filed $4,000,000 of 5% convertible subordinated debentures due May 1, 1973. **Price**—To be supplied by amendment. **Proceeds**—For working capital. **Business**—Manufacturer of tires and tubes. **Underwriter**—Reynolds & Co., New York. **Offering**—Temporarily postponed.

Athabasca Uranium Mines, Ltd. (formerly American-Canadian Uranium Co., Ltd.).
April 17 filed 500,000 shares of common stock (par 10 cents). **Price**—$1.25 per share. **Proceeds**—For engineering, development and mining expenses. **Underwriter**—George D. Clarke, Ltd., 50 Broad Street, New York.

Atomic Uranium Corp., Denver, Colo.
March 23 (letter of notification) 232,000 shares of common stock (par 10 cents). **Price**—$1.25 per share. **Proceeds**—For exploration. **Office**—Interstate Trust Bldg., Denver, Colo. **Underwriter**—Luckhurst & Co., Inc., New York.

• **Aviation Equipment Corp. (5/21)**
April 17 filed $1,000,000 of 6% subordinated debentures due 1964; 8,000 shares of 6% preferred stock (par $50); and depositary receipts representing 8,000 shares of common stock (par $1) to be offered in units of a $1,000 debenture, eight shares of preferred stock and depositary receipts representing eight shares of common stock. **Price** $1,550 per unit. **Proceeds**—From sale of securities, together with $4,000,000 to be borrowed from bank, to acquire airplanes and equipment and for working capital. **Underwriter**—Union Securities Corp., New York.

Basin Oil Corp., Evansville, Ind.
April 20 (letter of notification) 403,044 shares of common stock (par 10 cents), of which 123,044 shares are to be offered by selling stockholders. **Price**—62½ cents per share. **Proceeds**—For working capital. **Office**—419 Grein Bldg., Evansville, Ind. **Underwriters**—Cruttenden & Co. and Mason, Moran & Co., both of Chicago, Ill.

Blackwood & Nichols Co., Oklahoma City, Okla., and Oil & Gas Co., Madison, N. J.
May 1 filed 359 working interests in oil and gas leases to be offered for sale "as a speculation." **Price**—$1,392.75 per working interest. **Proceeds**—For development of oil and gas leases. **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.

Brooks & Perkins, Inc., Detroit, Mich.
April 22 (letter of notification) 6,475 shares of common stock (par $1). **Price**—$6 per share. **Proceeds**—To underwriter, Watling, Lerchen & Co., Detroit, Mich.

★ **Bunday's Water Co., Linesville, Pa. (5/25)**
May 8 (letter of notification) $35,000 of 20-year 5% refunding mortgage bonds dated July 1, 1953. **Price**—At par (in denominations of $100 and $500). **Proceeds**—To redeem first mortgage bonds, to repay bills payable and for capital improvements. **Underwriter**—Graham & Co., Pittsburgh, Pa.

★ **Butler Engineering Co., Inc., New Orleans, La.**
May 11 (letter of notification) $180,000 of 5% debenture bonds due 1957 and 15,000 shares of common stock (par 10 cents) to be offered in units of one $1,200 bond and 100 shares of stock. **Price**—$1,010 per unit. **Proceeds**—

Continued on page 58

NEW ISSUE CALENDAR

May 15, 1953
General Contract Corp.—Preferred
(G. H. Walker & Co.) $5,000,000

May 18, 1953
Metropolitan Edison Co.—Bonds
(Bids 11 a.m. EDT)
Southern Natural Gas Co.—Debentures
(Bids 10:30 a.m. EDT) $34,220,100
Southern Natural Gas Co.—Bonds
(Bids noon EDT) $30,000,000
Texas Power & Light Co.—Bonds & Preferred
(Bids 11:30 a.m. EDT)
Texas Western Oil Co., Inc.—Common
(Walter Aronheim)

May 19, 1953
Pacific Gas & Electric Co.—Bonds
(Bids 8:30 a.m. PDT)
Schlafly Nolan Oil Co., Inc.—Common
(L. H. Rothchild & Co.)
Weston Electrical Instrument Corp.—Common
(Offering to stockholders—underwritten by Merrill Lynch, Pierce, Fenner & Beane) 107,055 shares

May 20, 1953
Meredith Publishing Co.—Common
(Stone & Webster Securities Corp.)
Philadelphia Electric Co.—Bonds
(Bids noon EDT)
Texas Industries, Inc.—Debentures
(Rauscher, Pierce & Co.; A. C. Allyn & Co., Inc.; and Russ & Co.) $3,500,000

May 21, 1953
Aviation Equipment Corp.—Debs. & Stock
(Union Securities Corp.)

May 22, 1953
Financial Credit Corp.—Preferred
(E. J. Fountain & Co., Inc.) $300,000

May 25, 1953
Arkansas Louisiana Gas Co.—Bonds
(Bids noon EDT) $35,000,000
Bangor & Aroostook RR.—Bonds
(Bids 5:30 p.m. EDT)
Bunday's Water Co.—Bonds
(Graham & Co.) $35,000
Peruvian Oil Concessions Co., Inc.—Common
(B. G. Phillips & Co.)
Shield Chemical Corp.—Common
(Peter W. Spiess & Co.)

May 26, 1953
Consolidated Natural Gas Co.—Debentures
(Bids 11:30 a.m. EDT)
Government Employees Corp.—Common
(Offering to stockholders—no underwriting)
Phillips Petroleum Co.—Debentures
(Offering to stockholders—underwritten by The First Boston Corp.) $162,222,000
Three States Natural Gas Co.—Common
(Lehman Brothers) 500,000 shares

May 27, 1953
Chicago & North Western Ry.—Equip. Tr. Ctfs.
(Bids noon CDT) $3,930,000
Hammacher, Schlemmer & Co. Inc.—Stocks
(Bids 3 p.m. EDT)
Missouri Pacific RR.—Equip. Tr. Ctfs.
(Bids to be invited) $2,325,000

Potomac Electric Power Co.—Bonds
(Bids to be invited) $10,000,000
Potomac Electric Power Co.—Common
(Offering to stockholders—underwritten by Dillon, Read & Co. Inc. and Johnston, Lemon & Co.) 852,840 shares

May 28, 1953
Gray Manufacturing Co.—Common
(Offering to stockholders—no underwriting)
Rochester Gas & Electric Corp.—Common
(Offering to stockholders—underwritten by The First Boston Corp.) 175,000 shares

June 1, 1953
City Bank & Trust Co. of Reading, Pa.—Common
(Offering to stockholders)

June 2, 1953
American Automobile Insurance Co.—Common
(Kidder, Peabody & Co.) 125,000 shares
General Dynamics Corp.—Common
(Lehman Brothers and Greenshields & Co., Inc.) 250,000 shares
Iowa Public Service Co.—Bonds
(Bids 11 a.m. EDT) $7,500,000
Oklahoma Natural Gas Co.—Common
(Bids 11 a.m. EDT) 235,000 shares
Public Service Co. of Indiana, Inc.—Pfd. & Com.
(Common to be offered to stockholders—underwriters to be named) 600,000 pfd. & 472,596 common shares
Texas Utilities Co.—Common
(Bids 11 a.m. EDT)

June 4, 1953
General Public Utilities Corp.—Common
(Offering to stockholders—no underwriting)

June 8, 1953
Arkansas Power & Light Co.—Bonds
(Bids to be invited) $18,000,000

June 9, 1953
American Gas & Electric Co.—Common
(Bids 11 a.m. EDT) 800,000 shares
Gulf Power Co.—Bonds
(Bids 11 a.m. EDT)
New Jersey Power & Light Co.—Bonds
(Bids 11 a.m. EDT) $5,500,000

June 10, 1953
New England Electric System—Common
(Offering to stockholders—bids noon EDT)

June 15, 1953
Washington Gas Light Co.—Bonds
(Bids to be invited) $7,000,000

June 22, 1953
Gas Service Co.—Common
(Bids to be invited) 1,500,000 shares
Rogers Corp.—Class B
(Offering to stockholders—no underwriting

June 23, 1953
New York Telephone Co.—Bonds
(Bids 11 a.m. EDT)
Pennsylvania Electric Co.—Bonds
(Bids 11 a.m. EDT)

Aug. 3, 1953
Denver & Rio Grande Western RR.—Equip. Trust Ctfs.
(Bids to be invited)

Continued from page 57

For working capital. **Office**—2612 Rousseau St., New Orleans, La. **Business** — Manufacture and sale of machine known as the "Butler De-Scaler." **Underwriter**—None.

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, Tex.; Carl M. Loeb, Rhoades & Co., New York; and Straus, Blosser & McDowell, Chicago, Ill. **Offering**—Postponed.

California Tungsten Corp. (name to be changed to Uranium Mines Corp. of America), Salt Lake City, Utah
March 30 (letter of notification) 1,999,000 shares of common stock. **Price**—15 cents per share. **Proceeds**—For working capital, etc. **Underwriter**—Tellier & Co., New York.

Carolina Casualty Insurance Co., Burlington, N. C.
April 29 (letter of notification) 103,506 shares of class B non-voting common stock (par $1). **Price**—$2 per share. **Proceeds**—To increase capital and surplus. **Office**—262 Morehead St., Burlington, N. C. **Underwriter**—None.

Central City Milling & Mining Corp.
March 4 (letter of notification) 1,800,000 shares of common stock. **Price**—At par (10 cents per share). **Proceeds**—For mining operations. **Underwriter**—R. L. Hughes & Co., Denver, Colo.

Central Fibre Products Co., Inc., Quincy, Ill.
March 23 (letter of notification) 2,400 shares of common stock (par $5). **Price**—At market (approximately $39.50 per share). **Proceeds** — To E. Carey, Jr., and W. D. P. Carey, the two selling stockholders. **Underwriters**—Bosworth, Sullivan & Co., Denver, Colo.

★ **Cheney Brothers, Manchester, Conn.**
May 8 (letter of notification) 23,872 shares of common stock (no par) to be offered for subscription by common stockholders at rate of one new share for each ten now held. **Price**—$11 per share. **Proceeds**—For working capital. **Office**—Hartford Road, Manchester, Conn. **Business**—Manufactures and sells textiles. **Underwriter**—None.

★ **Chicago Iron & Bridge Co.**
May 11 (letter of notification) 6,112 shares of common stock (par $20). **Price**—$49.08 per share. **Proceeds**—For general corporate purposes. **Office**—1305 West 105th St., Chicago, Ill. **Underwriter**—None.

● **Code Products Corp., Philadelphia, Pa.**
April 20 filed (amendment) 500,000 shares of 6% cumulative preferred stock (par $1) and 250,000 shares of common stock (no par) to be offered in units of two shares of preferred stock and one share of common stock. **Price**—$3 per unit. **Proceeds**—For working capital. **Underwriter**—Frank M. Cryan & Co., New York. Statement effective about Feb. 13.

★ **Consolidated Gas, Electric Light & Power Co. Of Baltimore**
May 8 filed $25,000,000 of first refunding mortgage bonds, series Y, due June 1, 1983. **Proceeds**—To finance expansion program. **Underwriters** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp. and White, Weld & Co. (jointly); Harriman Ripley & Co. Inc. and Alex. Brown & Sons (jointly). **Bids**—Expected to be received early in June.

● **Consolidated Natural Gas Co. (5/26)**
April 17 filed $40,000,000 of debentures due 1978 (subsequently reduced to $25,000,000 principal amount). **Proceeds**—To purchase securities of operating subsidiaries to finance their construction expenditures, estimated at $49,000,000 for 1953. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co. and The First Boston Corp. (jointly); White, Weld & Co. and Paine, Webber, Jackson & Curtis (jointly). **Bids**—To be received up to 11:30 a.m. (EDT) on May 26 at 30 Rockefeller Plaza, New York 20, N. Y.

Cooperative Grange League Federation Exchange, Inc.
Feb. 13 filed 50,000 shares of 4% cumulative preferred stock (par $100) and 700,000 shares of common stock (par $5). **Price**—At par. **Proceeds**—For working capital. **Business**—Production of dairy and poultry feeds. **Office**—Ithaca, N. Y. **Underwriter**—None.

Coronado Copper Mines Corp.
Jan. 23 (letter of notification) 299,970 shares of common stock (par 10 cents). **Price**—$1 per share. **Proceeds**—To acquire leases, for exploration expenses, to repay loans and for working capital. **Office**—100 West 10th St., Wilmington, Del. **Underwriter**—Charles J. Maggio, Inc., New York. Letter to be withdrawn.

★ **Dakota-Montana Oil Leaseholds, Inc., N. Y.**
May 1 (letter of notification) 300,000 shares of common stock (par 50 cents). **Price**—$1 per share. **Proceeds**—For working capital. **Office**—535 Fifth Ave., New York, N. Y. **Underwriter**—Weber, Millican Co., New York.

Dixie Fire & Casualty Co., Greer, S. C.
April 9 (letter of notification) 8,000 shares of common stock (par $10) being offered first to stockholders of record April 1 at rate of one share for each 6¼ shares held; rights to expire May 25. **Price**—$25 per share. **Proceeds**—For working capital. **Underwriter**—None.

★ **Electronic Associates, Inc.**
May 11 (letter of notification) 10,000 shares of common stock (par $1) to be offered for subscription by stockholders of record June 1 on a 1-for-10 basis; rights to expire July 1. **Price** — $15 per share. **Proceeds** — For working capital. **Office** — Long Branch Ave., Long Branch, N. J. **Underwriter**—None.

★ **Fairway Foods, Inc., St. Paul, Minn.**
May 3 filed $1,600,000 first mortgage lien 4½% bonds to mature $40,000 annually from 1955 to 1994, inclusive. **Price**—At 100% of principal amount. **Proceeds**—To construct new warehouse. **Underwriter**—None.

★ **Federal Loan Co. of Pittsfield, Inc.**
May 8 (letter of notification) 19,638 shares of 7% cumulative convertible preferred stock (par $11) and 19,638 shares of common stock (par $1) to be offered in units of one preferred and one common share. **Price**—$15 per unit. **Proceeds**—For working capital. **Underwriters**—Simon, Strauss & Himme, New York; William N. Pope, Inc., Syracuse, N. Y., and Chace, Whiteside, West & Winslow, Inc., Boston, Mass.

★ **Financial Credit Corp., New York (5/22)**
May 8 (letter of notification) 150,000 shares of 7% cumulative preferred stock. **Price** — At par ($2 per share). **Proceeds** — For working capital. **Underwriter** — E. J. Fountain & Co., Inc., New York, N. Y.

● **Flock Gas & Oil Corp., Ltd., Calgary, Can.**
March 19 filed 800,000 shares of common stock (par 20 cents). **Price**—$2 per share. **Proceeds**—For development of properties now held by it, for acquiring and holding reservations and leases or participating therein, for exploration and drilling expenses, etc. **Underwriter**—Peter Morgan & Co., New York. **Offering**—Now being made.

● **General Contract Corp. (5/15)**
April 17 filed 500,000 shares of 6% preferred stock (par $10) to be offered for subscription by common stockholders at rate of one share for each 3.3 common shares held. Unsubscribed shares to be offered in exchange for series A preferred stock (with a cash adjustment). **Price**—To be supplied by amendment (probably around $11 per share). **Proceeds**—To redeem series A preferred shares outstanding, to repay loans and for working capital. **Underwriter**—G. H. Walker & Co., New York and St. Louis. **Offering**—Expected May 15 for a 10-day standby.

★ **General Dynamics Corp. (6/2)**
May 12 filed 250,000 shares of common stock (par $3). **Price**—To be supplied by amendment. **Proceeds**—To repay bank loans made to acquire a block of 400,000 shares of Consolidated Vultee Aircraft Corp. **Underwriter**—Lehman Brothers, New York, to handle U. S. sales of shares, while Greenshields & Co., Inc., will handle Canadian distribution of a portion of the offering.

★ **General Instrument Corp.**
May 7 filed 57,800 shares of common stock (par $1), issuable upon exercise of certain options held by certain executives and employees of the company. **Price**—Options exercisable at $9.50 per share. **Proceeds**—For working capital.

● **General Public Utilities Corp. (6/4)**
May 6 filed 568,665 shares of common stock (par $5) to be offered for subscription by common stockholders of record June 2 at the rate of one new share for each 15 shares held; rights to expire on June 24. **Price**—To be supplied by amendment. **Proceeds**—To reduce bank loans and for investments in subsidiaries. **Underwriter**—None. Merrill Lynch, Pierce, Fenner & Beane will act as clearing agent.

Government Employees Corp. (5/26)
May 1 (letter of notification) 12,000 shares of common stock (par $5) to be offered to common stockholders of record April 28 on the basis of one new share for each five shares held; rights to expire on June 24. Subscription warrants are to be issued on May 26. **Price**—$15 per share. **Proceeds**—For working capital. **Office**—Government Employees Insurance Bldg., 14th and L Sts., N. W., Washington, D. C. **Underwriter**—None.

Grand Bahama Co., Ltd., Nassau
Feb. 3 filed $1,350,000 20-year 6% first mortgage convertible debentures due March, 1973, and 1,565,000 shares of class A stock (par 10 cents). **Price**—Par for debentures and $1 per share for stock. **Proceeds** — For new construction. **Business** — Hotel and land development. **Underwriter**—Gearhart & Otis, Inc., New York.

Gray Manufacturing Co., Hartford, Conn. (5/28)
May 1 filed 55,313 shares of capital stock (par $5) to be offered for subscription by stockholders on the basis of one new share for each four shares held as of May 28; rights to expire about June 17. **Price**—To be supplied by amendment. **Proceeds** — For general corporate purposes. **Underwriter**—None.

★ **Gulf Power Co. (6/9)**
May 8 filed $7,000,000 first mortgage bonds due 1983. **Proceeds**—To repay $4,000,000 of bank loans and for new construction. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co.; The First Boston Corp.; Kidder, Peabody & Co. and White, Weld & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Salomon Bros. & Hutzler and Drexel & Co. (jointly); Union Securities Corp.; Equitable Securities Corp.; Lehman Brothers. **Bids**—Tentatively expected to be received up to 11 a.m. (EDT) on June 9.

Household Service, Inc.
April 27 (letter of notification) 1,000 shares of 6% cumulative preferred stock (par $25) and 125 shares of common stock (par $10) being offered in units of eight shares of preferred and one share of common stock. **Price**—$200 per unit. **Proceeds**—To payment of $15,000 notes and purchase additional gas equipment. **Underwriter**—Mohawk Valley Investing Co., Inc., Utica, N. Y.

Hydrocap Eastern, Inc., Philadelphia, Pa.
April 27 filed 500,000 shares of common stock, of which underwriters have agreed to purchase 100,000 shares for public sale and to use "best efforts" to sell remaining shares. **Price**—At par ($1 per share). **Proceeds**—To establish assembly plant and acquire raw materials. **Underwriter**—Barham & Co., Coral Gables, Fla.

Insurance Co. of North America, Phila., Pa.
April 16 filed 30,000 shares of capital stock (par $5) to be offered for sale to employees of company and five affiliated companies. **Underwriter**—None.

International Harvester Co., Chicago, Ill.
April 24 filed 568,000 shares of common stock (no par) to be offered for subscription by certain employees of company and its subsidiaries under Employees' Common Stock Subscription Plan of 1953. **Price**—To be supplied by amendment. **Proceeds**—For general corporate purposes. **Underwriter**—None.

Interstate Fire & Casualty Co., Bloomington, Ill.
March 26 filed 28,000 shares of capital stock (par $10) to be offered for subscription by stockholders of record April 1 at the rate of 1 3/11 shares for each share held. **Price**—$16.50 per share. **Proceeds**—To increase capital and surplus. **Underwriter**—None.

● **Iowa Public Service Co. (6/2)**
May 1 filed $7,500,000 of first mortgage bonds due June 1, 1983. **Proceeds** — To repay $1,000,000 bank loans and for new construction. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; First Boston Corp.; Kuhn, Loeb & Co.; Kidder, Peabody & Co. and Blyth & Co., Inc. (jointly); Lehman Brothers, Bear, Stearns & Co. and L. F. Rothschild & Co. (jointly); Union Securities Corp. and Salomon Bros. & Hutzler (jointly). **Bids**—Expected to be received up to 11 a.m. (EDT) on June 2 at 61 Broadway, New York 6, N. Y.

Israel Investors, Inc., New York
April 24 filed 86,960 shares of common stock (no par) to be sold in units of 10 shares each. **Price**—$1,150 per unit payable in cash or no more than $1,000 in State of Israel Independence Issue bonds and the balance in cash. **Proceeds**—To aid economic development of Israel. **Underwriter**—None.

Keystone Helicopter Corp., Phila., Pa.
April 23 (letter of notification) 295,000 shares of common stock (par 10 cents). **Price**—$1 per share. **Proceeds**—To purchase helicopter and equipment and for working capital. **Office**—Land Title Bldg., Philadelphia, Pa. **Underwriter**—None.

LaCrosse Telephone Corp., LaCrosse, Wis.
April 29 (letter of notification) 10,000 shares of common stock (par $10). **Price**—$11.25 per share. **Proceeds**—To extend and improve facilities. **Underwriters**—Loewi & Co., Milwaukee, Wis.; and Bell & Farrell, Inc., Madison, Wis.

Lewis (E. L.) Co., Inc., Spartanburg, S. C.
April 20 (letter of notification) 47,132 shares of common stock (par $1) to be offered to stockholders on the basis of one new share for each two shares held. **Price** — $1.12½ per share. **Proceeds** — For expansion program. **Underwriters**—Dargan & Co. and Calhoun & Co., both of Spartanburg, S. C.

★ **Lilly Belle Mining & Milling Co., Inc.**
May 11 (letter of notification) 1,000 shares of common stock. **Price**—At par ($10 per share). **Proceeds**—For expansion costs. **Office**—215 Mining Exchange Bldg., Colorado Springs, Colo. **Underwriter**—None.

● **Lone Star Gas Co.**
April 22 filed 183,300 shares of 4¾% cumul. convertible preferred stock being offered to common stockholders of record May 13 at the rate of one preferred share for each 30 shares of common stock held; rights to expire May 27. **Price**—At par ($100 per share). **Proceeds**—For working capital and for additions and improvements to property. **Underwriter** — The First Boston Corp., New York.

★ **Lone Star Sulphur Corp., Wilmington, Del.**
May 8 filed 600,000 shares of common stock (par 5 cents) to be offered for subscription by common stockholders of record May 8 on a share-for-share basis "as a speculation." **Price**—To be supplied by amendment. **Proceeds**—For expansion program. **Underwriter**—None.

★ **Macco Corp. (Calif.)**
April 29 (letter of notification) $50,000 worth of common stock. **Price**—At market. **Proceeds**—To E. J. Davis, the selling stockholder. **Underwriter**—None, but Dean Witter & Co., San Francisco, Calif., will act as broker.

★ **Manheim Water Co., Manheim, Pa.**
May 5 (letter of notification) 2,000 shares of common stock to be offered for subscription by common stockholders of record April 14, on basis of two-thirds of a share for each share held; rights to expire on May 26. **Price**—At par ($25 per share). **Proceeds**—To pay, in part, cost of new water filtration plant. **Underwriter**—None.

Marathon Corp., Menasha, Wis.
March 20 filed 614,872 shares of common stock (par $6.25) being offered in exchange for stock of Northern Paper Mills on the basis of six shares for each share of Northern common stock and five shares for each share of Northern preferred stock. Offer will expire on May 22. **Underwriter**—None.

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.

Mechanical Handling Systems, Inc.
March 31 filed 120,000 shares of common stock (par $1). **Price**—To be supplied by amendment. **Proceeds**—To purchase common stock of The Louden Machinery Co. **Business**—Manufacture and sale of conveyors in industrial and commercial applications. **Office**—Detroit, Mich. **Underwriter**—Kidder, Peabody & Co., New York. **Offering**—Indefinitely postponed.

● **Meredith Publishing Co. (5/20)**
April 24 filed 258,000 shares of common stock (par $5). **Price**—To be supplied by amendment. **Proceeds**—To selling stockholders. **Underwriter** — Stone & Webster Securities Corp., New York.

● **Metropolitan Edison Co., Reading, Pa. (5/18)**
April 15 filed $8,000,000 of first mortgage bonds due 1983. **Proceeds**—For construction program. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co. and Salomon Bros. & Hutzler (jointly); White, Weld & Co.; The First Boston Corp.; Kidder, Peabody & Co. and Drexel & Co (jointly); Harriman Ripley & Co., Inc. and Union Securities Corp. (jointly); Blyth & Co., Inc. **Bids**—To be received up to 11 a.m. (EDT) on May 18 at 67 Broad Street, New York 4, N. Y.

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.

Montana-Dakota Utilities Co.
April 15 filed 293,108 shares of common stock (par $5) being offered for subscription by common stockholders on basis of one new share for each five shares held on May 5; rights to expire May 20. **Price**—$21.87½ per share. **Proceeds**—To repay $5,250,000 short-term loans and for new construction. **Underwriter** — Blyth & Co., Inc. and Merrill Lynch, Pierce, Fenner & Beane, both of New York.

Mount Holly (N. J.) Water Co.
April 14 (letter of notification) 5,000 shares of common stock (no par) to be offered for subscription by common stockholders of record April 29 at rate of one new share for each share held (with an oversubscription privilege); rights to expire May 29. **Price**—$22 per share. **Proceeds**—To repay bank loans, etc. and for capital additions. **Underwriter**—None.

★ **National Credit Card, Inc., Portland, Ore.**
May 11 (letter of notification) 1,400 shares of 6% non-cumulative preferred stock (par $100) and 1,400 shares of common stock (no par) to be sold in units of one share of each class of stock. **Price**—$101 per unit. **Proceeds** — For working capital. **Business**—Credit service. **Office**—Times Building, Portland 4, Ore. **Underwriter**—None.

★ **National Food Products Corp., Boston, Mass.**
May 4 (letter of notification) 600 shares of common stock (par $1). **Price**—At market (estimated at $32 per share). **Proceeds**—To stockholders in adjustment of fractional shares as result of 25% stock dividend. **Underwriter**—None.

New England Electric System (6/10)
May 4 filed 828,516 additional shares of common stock (par $1) to be offered for subscription by common stockholders of record June 11 on the basis of one new share for each 10 shares held (with an oversubscription privilege); rights to expire on or about June 25. Warrants are expected to be mailed on June 11. **Price**—To be set by company on June 8. **Proceeds**—For expansion program. **Underwriters**—To be determined by competitive bidding. Probable bidders: Blyth & Co., Inc., Lehman Brothers and Bear, Stearns & Co. (jointly); Merrill Lynch Pierce, Fenner & Beane, Kidder, Peabody & Co. and White, Weld & Co. (jointly). **Bids**—To be received up to noon (EDT) on June 10 at 441 Stuart St., Boston 16, Mass.

★ **New Jersey Power & Light Co. (6/9)**
May 7 filed $5,500,000 of first mortgage bonds due 1983. **Proceeds**—To repay bank loans and for new construction. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Union Securities Corp. and White, Weld & Co. (jointly); The First Boston Corp. and Kidder, Peabody & Co. (jointly); Carl M. Loeb, Rhoades & Co.; Equitable Securities Corp.; Kuhn, Loeb & Co.; Lehman Brothers and Goldman, Sachs & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane. **Bids**—Tentatively expected to be received up to 11 a.m. (EDT) on June 9.

North American Peat Moss Co., Inc. (N. Y.)
April 10 filed 500,000 shares of common stock (par 10 cents). **Price** — $1 per share. **Proceeds** — To purchase equipment and for working capital. **Underwriter**—R. A. Keppler & Co., Inc., New York.

Northern Natural Gas Co.
April 15 filed 548,100 shares of common stock (par $10), being offered for subscription by common stockholders of record May 5 on basis of one new share for each five shares held (with an oversubscription privilege); rights to expire on May 19. Unsubscribed shares are to be offered to employees. **Price**—$35.25 per share. **Proceeds**—From sale of stock, together with proposed sale in June of $40,000,000 of debentures, to be used to repay bank loans and for construction program. **Underwriter**—Blyth & Co., Inc., New York and San Francisco.

★ **Northern Natural Gas Co.**
May 7 filed $40,000,000 of serial debentures due 1956-1973. **Proceeds**—To repay bank loans and for construction program. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; The First Boston Corp. and Kidder, Peabody & Co. (jointly). **Bids**—Expected to be received early in June.

Northlands Oils Ltd., Canada
Nov. 21 filed 1,000,000 shares of capital stock (par 20¢ — 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. Financing may be revised.

Noryn Mines Ltd., Hull, Quebec, Canada
April 23 filed 500,000 shares of common stock (par $1). **Price**—50 cents per share. **Proceeds**—To repay loans and for other corporate purposes. **Underwriter**—None.

★ **Oklahoma Natural Gas Co. (6/2)**
May 7 filed 235,000 shares of common stock (par $7.50). **Proceeds**—To repay, in part, bank loans aggregating $6,000,000 incurred in connection with the company's construction program. **Underwriters**—To be determined by competitive bidding. Probable bidders: Stone & Webster Securities Corp.; Shields & Co.; Lehman Brothers and Harriman Ripley & Co., Inc. (jointly). **Bids**—Expected to be received up to 11 a.m. (EDT) on June 2 at 90 Broad St., New York, N. Y.

★ **Organic Soil Builder, Inc.**
May 5 (letter of notification) 1,750 shares of class A participating preferred stock (no par). **Price**—$100 per share. **Proceeds** — For expansion and working capital. **Office**—322 Main St., Huntington, L. I., N. Y. **Underwriter**—None.

Pacific Gas & Electric Co. (5/19)
April 21 filed $65,000,000 of first and refunding mortgage bonds, series V, due June 1, 1984. **Proceeds** — To retire short term loans and for new construction. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; The First Boston Corp. **Bids**—To be received up to 8:30 a.m. (PDT) on May 19 at 245 Market St., San Francisco, Calif.

Palestine Economic Corp., New York
March 6 filed 100,000 shares of common stock (par $25). **Price**—$28 per share. **Proceeds** — For development of Israel industry, etc., and for working capital. **Underwriter**—None.

Palmer Stendel Oil Corp., Santa Barbara, Calif.
May 1 (letter of notification) 160,000 shares of common stock (par 10 cents). **Price**—45 cents per share. **Proceeds**—To E. M. and Marjorie L. Bratter, trustees. **Underwriter**—Burnham & Co., New York.

Pennant Drilling Co., Inc., Denver, Colo.
March 23 (letter of notification) 42,507 shares of common stock (par $1). **Price**—$1.30 per share. **Proceeds**—To Morris Replin, the selling stockholder. **Underwriter**—Peters, Writer & Christensen, Inc., Denver, Colo.

★ **Pennsylvania Power & Light Co.**
May 1 filed 743,496 shares of common stock (no par), 21,752 shares of 4.40% preferred stock (par $100), 53,248 shares of 3.35% preferred stock (par $100) and 39,936 shares of 4½% preferred stock (par $100) to be offered in exchange for all the outstanding stock of Scranton Electric Co. **Underwriter**—None.

★ **Perfect-Line Manufacturing Corp.**
May 6 (letter of notification) 180,000 shares of common stock (par 10 cents). **Price**—$1.50 per share. **Proceeds**—For expansion. **Business** — Manufacturing ventilating equipment, specialty wiring devices and lighting equipment. **Address** — c/o Alfred Robbins, President 83-06 Victor Ave., Elmhurst, L. I., N. Y. **Underwriter**—None.

Peruvian Oil Concessions Co., Inc. (5/25)
Jan. 16 filed 9,000,000 shares of common stock (par $1) (amended April 24 to 1,000,000 shares). **Price**—$2 per share. **Proceeds**—For general corporate purposes. **Business**—Plans to produce and sell petroleum and its products from lands to be held under concession from the Peruvian Government. **Underwriter**—B. G. Phillips & Co., New York.

Philadelphia Electric Co. (5/20)
April 10 filed $30,000,000 of first and refunding mortgage bonds due 1983. **Proceeds**—To repay bank loans and for new construction. **Underwriters**—May be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Drexel & Co. and Morgan Stanley & Co. (jointly); Kuhn, Loeb & Co. and Union Securities Corp. (jointly); White, Weld & Co.; The First Boston Corp. **Bids**—To be received up to noon (EDT) on May 20 at 1000 Chestnut St., Philadelphia, Pa.

Philadelphia Electric Co. (6/2)
April 10 filed 100,000 shares of common stock (no par) to be offered for subscription by employees of company and its subsidiaries. **Price**—From 85% to 95% of the then current market price. **Proceeds**—For construction program. **Underwriter**—None.

● **Phillips Petroleum Co. (5/26)**
May 4 filed approximately $162,222,000 of 30-year sinking fund debentures due June 1, 1983 (convertible into common stock for 10 years), to be offered for subscription by common stockholders at rate of $100 of debentures for each nine shares of stock held of record about May 26; rights to expire on June 9. **Price** — To be supplied by amendment. **Proceeds**—To repay approximately $113,000,000 of bank debt and for capital expenditures and other corporate purposes. **Underwriter**—The First Boston Corp., New York.

Plume & Atwood Manufacturing Co., Waterbury, Conn.
April 2 (letter of notification) 13,500 shares of common stock (no par) being offered for subscription by stockholders of record April 17 at rate of one new share for each four shares held; rights to expire May 15. **Price**—$16 per share. **Proceeds**—For plant expansion and equipment. **Office**—470 Bank St., Waterbury, Conn. **Underwriter**—None.

Potomac Electric Power Co. (5/27)
April 30 filed $10,000,000 first mortgage bonds due 1988. **Proceeds**—To repay bank loans. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers, Stone & Webster Securities Corp. and Union Securities Corp. (jointly); First Boston Corp.; Kidder, Peabody & Co., Merrill Lynch, Pierce, Fenner & Beane, White, Weld & Co. and Salomon Bros. & Hutzler (jointly); Kuhn, Loeb & Co. and Blyth & Co. Inc. (jointly); Dillon, Read & Co. Inc.; Harriman Ripley & Co., Inc. **Bids**—Expected to be received on or about May 27.

Potomac Electric Power Co. (5/27)
April 30 filed 852,840 shares of common stock (par $10) to be offered for subscription by common stockholders on the basis of one new share for each five shares held of record on or about May 27; rights to expire on June 10. **Price**—To be supplied by amendment. **Proceeds**—To repay bank loans and for new construction. **Underwriters**—Dillon, Read & Co. Inc., New York; and Johnston, Lemon & Co., Washington, D. C.

★ **Public Service Co. of Indiana, Inc. (6/2)**
May 13 filed 600,000 shares of cumulative preferred stock (par $25) and 472,596 shares of common stock (no par), the latter to be offered for subscription by common stockholders of record June 2. **Price**—To be supplied by amendment. **Proceeds**—For construction costs. **Underwriters**—To be supplied later. Blyth & Co., Inc., handled previous financing.

★ **Quarterly Distribution Shares, Inc.**
May 12 filed 100,000 shares of common stock. **Price**—At market. **Proceeds**—For investment. **Office**—Kansas City, Kansas.

Resort Airlines, Inc., Miami, Fla.
March 6 (letter of notification) 724,687 shares of common stock (par 10 cents) to be offered for subscription by stockholders on a pro rata basis. **Price**—20 cents per share. **Proceeds**—For working capital. **Address**—Box 242, International Airport, Miami 48, Fla. **Underwriter**—None.

★ **Rochester Gas & Electric Corp. (5/28)**
May 8 filed 175,000 shares of common stock (no par) to be offered for subscription by common stockholders of record May 28 at the rate of one new share for each seven shares held. Rights will expire on June 12. **Price**—To be supplied by amendment. **Proceeds**—To repay bank loans and for new construction. **Underwriter**—The First Boston Corp., New York.

★ **Rogers Corp., Manchester, Conn. (6/22)**
May 11 (letter of notification) 10,909 shares of class B common stock to be offered for subscription by holders of class B stock at rate of one new share for each two shares held on June 22. **Price**—$20 per share. **Proceeds**—To retire $100,000 bank loan and for working capital. **Business**—Manufacture of plastic materials. **Underwriter**—None.

Saint Anne's Oil Production Co.
April 23 filed 270,000 shares of common stock (par $1). **Price**—$5 per share. **Proceeds**—To acquire stock of Neb-Tex Oil Co., to pay loans and for working capital. **Office**—Northwood, Iowa. **Underwriter**—Sills, Fairman & Harris and H. M. Byllesby & Co., Inc., both of Chicago, Ill. **Offering**—Expected end of May or early June.

★ **Savage Industries, Inc., Phoenix, Ariz.**
May 11 (letter of notification) 19,100 shares of cumulative convertible preferred stock (par $1). **Price**—$10 per share. **Proceeds**—To repay debt and for operating capital. **Office**—415 S. Seventh St., Phoenix, Ariz. **Business**—Welding equipment distributor. **Underwriters**—Hannaford & Talbot and Pacific Coast Securities Co., both of San Francisco, Calif.

● **Schlafly Nolan Oil Co., Inc. (5/19)**
March 25 filed 150,000 shares of common stock (par 25 cents). **Price**—$4 per share. **Proceeds**—To purchase and sell leaseholdes, royalties and producing properties, to prospect for oil and gas and to develop and operate producing properties. **Office**—Mt. Vernon, Ill. **Underwriter**—L. H. Rothchild & Co., New York.

Securities Acceptance Corp.
April 24 (letter of notification) 6,000 shares of 5% cumulative preferred stock (par $25). **Price**—$26 per share. **Proceeds** — For working capital. **Underwriters**—Cruttenden & Co., Chicago, Ill.; Wachob-Bender Corp., Omaha, Neb.; and The First Trust Co. of Lincoln (Neb.).

● **Smith (Alexander), Inc., Yonkers, N. Y.**
May 1 filed $4,689,600 of subordinate debentures due July 1, 1973, which were to have been offered for subscription by common stockholders of record May 22 at rate of $100 of debentures of each 20 shares held; rights to expire on June 9. **Price**—At 100% of principal amount. **Proceeds**—From sale of debentures, together with pro-

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ceeds from a 3,400,000 loan from an insurance company, and bank borrowings, will be used for expansion, new equipment and working capital. **Underwriters**—Morgan Stanley & Co. and Dominick & Dominick, both of New York. **Withdrawal** — Registration Statement withdrawn on May 13. Sloane-Blabon Corp., a subsidiary, has disposed of its assets, which made marketing of debentures unnecessary.

Soil-Tone Corp., Plymouth, N. C.
March 27 (letter of notification) $150,000 of 6% contingent interest debentures due 1968 (convertible at any time at rate of 500 shares of common stock for each $1,000 debenture); and 150,000 shares of common stock (par $1). **Price**—At par or principal amount. **Proceeds**—To enlarge plant. **Underwriters**—McGinnis & Co., New York, and Stein Bros. & Boyce, Baltimore, Md.

Southern Bell Telephone & Telegraph Co.
April 9 filed $30,000,000 of 24-year debentures due May 1, 1977. **Proceeds**—To repay advances from American Telephone & Telegraph Co., the parent. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Kuhn, Loeb & Co.; The First Boston Corp. **Bids**—Received on May 5 but rejected.

● **Southern Natural Gas Co. (5/18)**
April 20 filed $34,220,100 of convertible sinking fund debentures due 1973 to be offered for subscription by common stockholders of record May 20 at rate of $100 of debentures for each 10 shares of stock held; rights to expire on June 8. **Price**—At par (flat). **Proceeds**—To repay bank loans and for new construction. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); Kuhn, Loeb & Co.; Equitable Securities Corp. **Bids**—To be received at 90 Broad St., New York, N. Y., up to 10:30 a.m. (EDT) on May 18.

Southern Natural Gas Co. (5/18)
April 20 filed $30,000,000 first mortgage pipeline sinking fund bonds due 1973. **Proceeds**—To repay bank loans and for expansion program. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co.; The First Boston Corp.; Equitable Securities Corp.; Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly). **Bids**—To be received up to noon (EDT) on May 18, at 90 Broad St., New York, N. Y.

Tennessee Gas Transmission Co.
April 27 filed $1,200,000 of "contributions to be made by employees of company to the thrift plan." **Underwriter**—None.

Texas Eastern Production Corp.
April 24 filed 1,833,009 shares of common stock (par $5) being offered for subscription by common stockholders of Texas Eastern Transmission Corp. (parent) of record May 8, 1953 at rate of one share of Production common for each three shares of Transmission common stock held; rights to expire about May 27. **Price**—$10 per share. Unsubscribed shares to be purchased by parent company. **Proceeds**—To repay a $10,000,000 loan obtained or to be obtained to finance the purchase of $9,000,000 of properties in the so-called West Hamshire Field in Texas and the balance will be used to provide additional working capital. **Dealer-Manager**—Dillon, Read & Co., Inc., New York.

Texas Illinois Natural Gas Pipeline Co.
May 6 filed 927,273 shares of common stock (par $1) to be offered for subscription by common stockholders. **Price**—To be supplied by amendment. **Proceeds**—For new construction and working capital. **Underwriter**—None. Peoples Gas Light & Coke Co., has agreed to take all unsubscribed stock.

Texas Industries, Inc., Dallas, Tex. (5/20)
April 30 filed $3,500,000 of 15-year 6% sinking fund debentures (with five-year warrants to buy 175,000 shares of common stock attached), due May 15, 1968. **Price**—At 100% and accrued interest. **Proceeds**—To buy stock of three companies, to purchase bonds of one of these companies, to acquire assets of two companies, to redeem bank loans and 6% convertible debentures and for general corporate purposes. **Underwriters**—Rauscher, Pierce & Co., Dallas, Tex.; A. C. Allyn & Co., Inc., Chicago, Ill.; and Russ & Co., San Antonio, Tex.

Texas Power & Light Co. (5/18)
April 13 filed $5,000,000 first mortgage bonds due 1983. **Proceeds**—To reduce bank loans and for new construction. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co., Blyth & Co., Inc., Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); The First Boston Corp.; Union Securities Corp.; Hemphill, Noyes & Co. and Drexel & Co. (jointly); White, Weld & Co.; Lehman Brothers; Salomon Bros. & Hutzler. **Bids**—To be received up to 11:30 a.m. (EDT) on May 18 at Two Rector St., New York, N. Y.

Texas Utilities Co. (6/2)
April 30 filed 350,000 shares of common stock (no par). **Proceeds** — To increase investments in subsidiaries. **Underwriters**—To be determined by competitive bidding. Probable bidders: The First Boston Corp., Blyth & Co., Inc., First Southwest Co., Rauscher, Pierce & Co., Inc. and Dallas Union Trust Co. (jointly); Union Securities Corp.; Lehman Brothers and Bear, Stearns & Co. (jointly); Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Goldman, Sachs & Co. and Harriman Ripley & Co., Inc. (jointly). **Bids**—To be received up to 11 a.m. (EDT) on June 2 at Two Rector St., New York, N. Y.

Texas Western Oil Co., Inc. (5/18)
March 24 (letter of notification) 250,000 shares of capital stock (par 10 cents). **Price**—$1 per share. **Proceeds**—To drill wells. **Office** — 116A City National Bank Bldg., Houston, Texas. **Underwriter** — Walter Aronheim, 82 Beaver St., New York.

Three States Natural Gas Co., Dallas, Tex. (5/26-27)
May 6 filed 500,000 shares of common stock (par $1). **Price**—To be supplied by amendment. **Proceeds**—To reduce bank debt and for general corporate purposes. **Office** — Dallas, Tex. **Underwriter** — Lehman Brothers, New York.

★ **Tri-Boro Finance Co., Inc.**
May 12 (letter of notification) $140,000 principal amount of 7% subordinate debentures. **Price**—At par (in units of $100 each). **Proceeds**—For working capital. **Office**—11 S. Washington St., No. Attleboro, Mass. **Underwriter**—None.

Union Carbide & Carbon Corp., New York
May 5 filed 417,717 shares of capital stock (no par) to be offered to certain officers and employees of the company under its stock purchase plan.

★ **United Mining & Leasing Corp. Central City, Colo.**
May 4 (letter of notification) 115,000 shares of common stock. **Price**—At par (10 cents per share). **Proceeds**—For mining equipment. **Underwriter** — R. L. Hughes & Co., Denver, Colo.

★ **United States Uranium Corp.**
May 4 (letter of notification) 500,000 shares of capital stock (par one cent). **Price**—Six cents per share. **Proceeds**—For mining equipment. **Office**—414 Darling Bldg., Salt Lake City, Utah. **Underwriter**—None.

Vault Co. of America, Davenport, Iowa
March 2 (letter of notification) 10,000 shares of common stock. **Price** — $10 per share. **Proceeds** — For working capital. **Underwriter**—A. J. Boldt & Co., Davenport, Ia.

Walburt Oils Ltd., Toronto, Canada
April 24 filed 660,000 shares of common stock (par $1) of which 550,000 shares will be offered in the United States and 110,000 shares in Canada. **Price** — $1.02 per share in U. S. and $1 per share in Canada. **Proceeds**—For general corporate purposes. **Underwriter**—Sidney S. Walcott, President of company, Buffalo, N. Y.

★ **Washington Water Power Co.**
May 7 filed 1,088,940 shares of $1.28 cumulative convertible preferred stock (par $25) and 1,088,939 shares of common stock (no par) to be issued in connection with the proposed merger into company of Puget Sound Power & Light Co. on the basis of one-half share of preferred and one-half share of common for each Puget Sound common share to holders who do not elect to receive cash at the rate of $27 per share. **Underwriter**—None.

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. **Offering**—Expected in the Spring of 1953.

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. **Offering**—Expected in the Spring of 1953.

Western Homestead Oils, Ltd., Calgary, Alta, Canada
April 24 filed 1,000,000 shares of capital stock (par 10 cents). **Price**—$1.30 per share for first 400,000 shares. **Proceeds**—For general corporate purposes. **Underwriter**—Owen Investors Ltd., of Toronto, Canada, through E. H. Pooler & Co., also of Toronto.

Western Safflower Corp.
April 9 (letter of notification) 240,000 shares of common stock (par 25 cents). **Price**—$1.25 per share. **Proceeds**—To construct plant. **Office**—First National Bank Bldg., Colorado Springs, Colo. **Underwriter**—E. I. Shelley Co., Denver, Colo.

Weston Electrical Instrument Corp. (5/19)
April 30 filed 107,055 shares of common stock (par $12.50) to be offered to common stockholders of record about May 19 on the basis of one new share for each three shares held; rights to expire on June 2. **Price**—To be supplied by amendment. **Proceeds** — To repay bank loans and for general corporate purposes. **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane, New York.

★ **Whitnur Developers, Inc., Reno, Nev.**
May 4 (letter of notification) 300,000 shares of common stock. **Price**—At par ($1 per share). **Proceeds**—For property to build motel. **Office**—139 North Virginia St., Reno, Nev. **Underwriter**—None.

★ **Winter Park Telephone Co. (Fla.)**
May 4 (letter of notification) 1,500 shares of 5½% cumulative preferred stock. **Price**—At par ($100 per share). **Proceeds**—For additions and improvements to property. **Underwriter**—Leedy, Wheeler & Alleman, Inc., Orlando, Fla.

Prospective Offerings

● **Allis-Chalmers Mfg. Co.**
May 6 stockholders approved a proposal to increase the authorized common stock from 3,750,000 shares (no par) to 5,000,000 shares (par $20). It is not presently planned to issue any of the additional stock. **Underwriter**—Previous financing was handled by Blyth & Co., Inc.

Arkansas Power & Light Co.
March 20 it was announced that company may consider refunding the outstanding 47,609 shares of $7 preferred stock (no par) and 45,891 shares of $6 preferred stock (no par), both callable at $110 per share. **Underwriters**—To be determined by competitive bidding. Probable bidders. Blyth & Co., Inc, and Equitable Securities Corp. (jointly); W. C. Langley & Co., and The First Boston Corp. (jointly); Kidder, Peabody & Co., and Merrill Lynch, Pierce, Fenner & Beane (jointly); Union Securities Corp.

● **Atlantic Refining Co.**
March 27 it was announced that proposed debenture issue later this year will be around $60,000,000. The exact nature and timing of the financing are still to be determined. Stockholders voted May 5 to increase the authorized debt from $75,000,000 to $150,000,000. **Proceeds**—To be used to help pay for a $100,000,000 construction program for 1953. **Underwriters**—Smith, Barney & Co. may head group.

Bangor & Aroostook RR. (5/25)
Bids will be received by the RFC at Room 1157, 811 Vermont Ave., N. W., Washington, D. C., prior to 5:30 p.m. (EDT) on May 25 for the purchase from it of $1,675,000 of collateral trust 4% bonds due July 1, 1961. Probable bidders: Halsey, Stuart & Co., Inc.; Blyth & Co., Inc.

Beryllium Corp.
April 23 it was reported company plans to offer additional shares of capital stock (no par) to stockholders on the basis sufficient to raise about $2,500,000 of new money. **Underwriter**—Francis I. du Pont & Co., New York. **Offering**—Expected in June.

Boston Edison Co., Boston, Mass.
April 27 it was announced stockholders will vote June 2 on approving a proposal to offer 246,866 shares of capital stock (par $25) to stockholders on the basis of one new share for each 10 shares held (with an oversubscription privilege). **Proceeds** — For new construction. **Underwriters**—To be determined by competitive bidding. Probable bidders: The First Boston Corp.; Blyth & Co., Inc.; Smith, Barney & Co.; Harriman Ripley & Co., Inc.

Central Foundry Co.
March 16 directors voted to offer rights to present preferred and common stockholders to subscribe for additional common stock in the ratio of one share of common stock for each four shares of either common or preferred stock held. **Underwriter**—To be named later. Fred J. Young of F. J. Young & Co., New York is a director.

Central Hudson Gas & Electric Corp.
March 3 it was announced that some portion of the company's financing program for 1953-1954 will involve the sale of $16,550,000 new securities, a portion of which will involve common stock or debt securities convertible into common stock. Stockholders at the annual meeting March 24 voted to authorize an additional 1,000,000 shares of common stock. **Underwriters** — Kidder, Peabody & Co. and Estabrook & Co. handled offering in November, 1949, of $6,000,000 2% convertible debentures.

Central Illinois Public Service Co.
March 26 it was reported that the company may about mid-July sell about $6,000,000 additional common stock (first to common stockholders). **Underwriter**—The First Boston Corp., New York.

Central Louisiana Electric Co., Inc.
April 16 stockholders authorized a block of the authorized common stock for issuance and sale locally in the parishes in which the facilities of the company are located, such stock not to exceed $300,000 in aggregate market value. They also approved issuance of securities convertible into shares of any class of capital stock.

Central Maine Power Co.
Jan. 2 it was reported company plans sale later this year of $10,000,000 common stock (in addition to $10,000,000 of 1st & gen. mtge. bonds sold March 10, 1953), after distribution by New England Public Service Co. of its holdings of Central Maine Power Co. common stock. Probable bidders: Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); Coffin & Burr, Inc.; A. C. Allyn & Co., Inc. and Bear, Stearns & Co. (jointly); Harriman Ripley & Co., Inc.

● **Chesapeake & Potomac Telephone Co. of Baltimore**
May 1 company petitioned the Maryland P. S. Commission for authority to issue and sell $15,000,000 of debentures. **Proceeds**—From sale of debentures, plus $25,000,000 to be received from sale of common stock to American Telephone & Telegraph Co., parent, for repayment of loans and for new construction. **Underwriters** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co.; Morgan Stanley & Co.; The First Boston Corp.; Harriman Ripley Co. Inc. and Alex. Brown & Son (jointly). **Bids**—Expected to be received in July.

★ **Chicago & North Western Ry. (5/27)**
Bids will be received by the company at 400 West Madison St., Chicago 6, Ill., up to noon (CDT) on May 27 for the purchase from it of $3,930,000 equipment trust certificates to be dated June 15, 1953 and to mature in 15 equal annual instalments. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

Cincinnati Gas & Electric Co.
March 31 it was revealed the company plans to raise $35,000,000 through sale of new securities (mostly bonds). **Proceeds**—For new construction. **Underwriters**—To be determined by competitive bidding. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Kuhn, Loeb & Co. and Salomon Bros. & Hutzler (jointly); Blyth & Co., Inc., and The First Boston Corp. (jointly); Union Securities Corp.; Glore, Forgan & Co. and White, Weld & Co. (jointly); W. C. Langley & Co.; Lehman Brothers; Harriman Ripley & Co., Inc.; Merrill Lynch, Pierce, Fenner & Beane. Previous equity financing was underwritten by Morgan Stanley & Co. and W. E. Hutton & Co.

Cinerama Productions Corp.
Jan. 9 it was reported company plans issuance and sale of about 500,000 shares of common stock. **Price**—Expected to be around $10 per share. **Underwriter**—Hayden, Stone & Co., New York. **Offering**—Postponed.

★ **City Bank & Trust Co. of Reading, Pa. (6/1)**
May 6, J. D. Heckman, President, announced that shareholders of record May 15 will have warrants mailed to them on or about June 1 entitling them to subscribe on or before July 15 for 15,000 additional shares of capital stock (par $10) on the basis of one new share for each two shares held. No fractional shares will be issued. **Price**—$30 per share. **Proceeds**—To increase capital and surplus.

Columbia Gas System, Inc.
April 6 it was announced company plans to issue and sell later this year $40,000,000 of new debentures. **Proceeds**—To repay bank loans and for construction program. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.

Delaware Power & Light Co.
April 21 stockholders approved a proposal to increase the authorized preferred stock from 200,000 shares to 300,000 shares (par $100). Probable bidders for any new preferred stock financing may include Blyth & Co., Inc. and The First Boston Corp. (jointly); White, Weld & Co. and Shields & Co. (jointly); Lehman Brothers; W. C. Langley & Co. and Union Securities Corp. (jointly); Morgan Stanley & Co. Stuart Cooper, President, said it is possible that common stock may be sold later in the year.

Denver & Rio Grande Western RR. (8/3)
Bids are expected to be received by the company on or about Aug. 3 for the purchase from it of $3,300,000 equipment trust certificates due semi-annually from Nov. 1, 1953, to May 1, 1968, inclusive, and on or about Oct. 1 of a like amount of said certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Kidder, Peabody & Co.

Detroit Edison Co.
March 24 it was announced company plans to issue an unspecified amount of convertible debenures due 1963 (about $55,000,000 to carry an interest rate not exceeding 4%) which may first be offered for subscription by stockholders. **Proceeds**—To retire bank loans and to meet construction costs. **Meeting**—Stockholders on April 14 authorized the new debentures. **Underwriter**—None.

Eastern Utilities Associates
Feb. 20 it was announced company plans sale of $7,000,000 collateral trust mortgage bonds due 1973. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Estabrook & Co. and Stone & Webster Securities Corp. (jointly); The First Boston Corp., White, Weld & Co. and Kidder, Peabody & Co. (jointly); Glore, Forgan & Co. and Harriman Ripley & Co. Inc. (jointly).

★ **Edgar Brothers Co., Metuchen, N. J.**
May 7 it was reported company plans to offer and sell 100,000 shares of common stock. **Price**—$8.50 per share. **Underwriters**—Will include D. A. Lomasney & Co., New York.

El Paso Natural Gas Co.
March 25 it was announced company plans to place privately $120,000,000 of first mortgage bonds and sell publicly 200,000 shares of preferred stock and $25,000,000 debentures. **Underwriter**—White, Weld & Co., N. Y.

★ **Gas Service Co. (6/22)**
May 12, B. C. Adams, President, said that Cities Service Co., parent, plans to sell its holdings in Gas Service Co., which will shortly be increased to 1,500,000 from 850,000 shares by transfer of surplus to capital account. **Proceeds**—To be used by Cities Service Co. to increase investment in Empire Gas & Fuel Co., another subsidiary. **Underwriters**—To be determined by competitive bidding. Probable bidders: Blyth & Co., Inc.; Kidder, Peabody & Co.; Lehman Brothers; Smith, Barney & Co.; Stone & Webster Securities Corp. and Stern Bros. & Co. (jointly). **Registration**—Expected to be filed about May 25. **Bids**—Tentatively planned for about June 22.

★ **General Motors Acceptance Corp.**
May 8, John J. Schumann, Jr., President, announced company has under consideration a public offering of a substantial amount of debentures of a relatively short maturity. **Proceeds** — To finance increased volume of business. **Underwriter** — Morgan Stanley & Co., New York.

General Telephone Co. of Kentucky
April 27 it was reported early registration is expected of 50,000 shares of cumulative preferred stock (par $50). **Underwriters** — Probably Paine, Webber, Jackson & Curtis and Stone & Webster Securities Corp.

Government Employees Corp., Washington, D. C.
March 18 stockholders authorized an issue of 3,000 shares of preferred stock (par $100) to carry a cumulative dividend rate not to exceed 6% annually. The management states that, under present plans, these shares will be issued as the growth of the corporation warrants.

● **Greenwich Gas Co.**
May 7 the Connecticut P. U. Commission authorized company to issue and sell $200,000 of first mortgage bonds and $483,000 par value of common stock (the latter first to stockholders). **Proceeds**—To retire bank loans. **Underwriter**—F. L. Putman & Co., Boston, Mass.

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. To finance the line company plans sale of bonds and stock (75% and 25%, respectively). **Underwriter**—May be Carl M. Loeb, Rhoades & Co., New York.

Hammacher, Schlemmer & Co., Inc. (5/27)
Bids will be received by the Attorney General of the United States at the office of Alien Property, 346 Broadway, New York 13, N. Y., up to 3 p.m. (EDT) on May 27 for the purchase from the Attorney General of 1,760 shares of capital stock (including 660 shares of $7 prior stock, no par value; 660 shares of $7 preferred stock, no par value; and 440 shares of common stock, no par value). This represents about 15% of the outstanding stock of the company. All bids submitted on June 26, 1952 had been rejected.

Iowa Electric Light & Power Co.
April 13 it was reported company may sell in June some common and preferred stock and/or debentures. **Underwriters** — For stock: The First Boston Corp. and G. H. Walker & Co., both of New York. Previous debt financing was done privately.

★ **Kansas Power & Light Co.**
May 6, D. E. Ackers, President, announced that company plans to market soon about $8,000,000 of equity securities (probably around $5,000,000 of preferred stock and 170,000 shares of common stock). **Proceeds**—To help pay for new construction. **Underwriters**—The First Boston Corp. handled last common stock financing. Previous preferred stock financing was done privately.

Long Island Lighting Co.
April 21 it was announced that company this Fall plans to issue and sell in the neighborhood of 600,000 shares of new common stock to be followed in the latter part of the year by an issue of about $25,000,000 of first mortgage bonds (this is in addition to 100,000 shares of series C preferred stock, par $100, offered publicly on May 7). **Proceeds**—To repay bank loans and for new construction. **Underwriters** — (1) For common stock, probably Blyth & Co., Inc. and The First Boston Corp. (jointly). (2) For bonds to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co., Inc.; Blyth & Co., Inc. and The First Boston Corp. (jointly); W. C. Langley & Co.; Smith, Barney & Co.

Louisiana Power & Light Co.
March 20 it was announced company may issue and sell in June $12,000,000 of first mortgage bonds. **Underwriters** — To be determined by competitive bidding Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co., Lehman Brothers and A. C. Allyn & Co., Inc. (jointly); Blyth & Co., Inc.; White, Weld & Co. and Shields & Co. (jointly); Salomon Bros. & Hutzler; W. C. Langley & Co., The First Boston Corp., and Glore, Forgan & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co. (jointly); Harriman Ripley & Co., Inc.; Equitable Securities Corp.

Maier Brewing Co., Los Angeles, Calif.
April 18 it was announced company will offer 400,000 additional shares of common stock to its stockholders at rate of four new shares for each share held. **Price**—$5 per share. **Proceeds** — To help finance a new bottling plant. **Underwriter**—None.

Menabi Exploration Co., Inc., Houston, Tex.
April 8 it was announced company plans to issue and sell $1,000,000 of convertible debentures. **Proceeds**—To finance development of oil properties in Ecuador. **Underwriter**—Kidder, Peabody & Co., New York.

★ **Michigan Consolidated Gas Co.**
May 1 company sought SEC authority to issue and sell $20,000,000 of first mortgage bonds due 1978. **Proceeds**—From sale of bonds, plus proceeds from sale of 215,000 shares of common stock (par $14) to American Natural Gas Co., parent, for $3,010,000, to be used to repay bank loans and for construction program. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; White, Weld & Co. and Lehman Brothers (jointly); Smith, Barney & Co. and Blyth & Co., Inc. (jointly); Harriman Ripley & Co., Inc., and Union Securities Corp. (jointly). **Bids**—Expected to be received about mid-June.

Mississippi Power & Light Co.
March 20, E. H. Dixon, President of Middle South Utilities, Inc., announced that refunding of Mississippi Power & Light Co.'s $6 preferred stock (no par), of which 44,476 shares are now outstanding, may be considered. This issue is callable at $110 per share. **Underwriters**—To be determined by competitive bidding. Probable bidders: Blyth & Co., Inc., and Equitable Securities Corp. (jointly; W. C. Langley & Co., and The First Boston Corp. (jointly); Kidder, Peabody & Co., and Merrill Lynch, Pierce, Fenner & Beane (jointly); Union Securities Corp.

★ **Missouri Pacific RR. (5/27)**
Bids will be received by the company on May 27 for the purchase from it of $2,325,000 equipment trust certificates to mature in 1-to-15 years. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

Mobile Gas Service Corp.
March 6, Maurice White, President, announced that, after proposed two-for-one split-up to be voted upon April 24, the company will offer to its stockholders 40,000 shares of additional common stock on a one-for-five basis. **Proceeds** — For construction program. **Underwriters** — To be named later.

Monongahela Power Co.
Dec. 11 it was announced company plans issuance and sale near the middle of 1953 of $10,000,000 first mortgage bonds. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; W. C. Langley & Co and the First Boston Corp. (jointly); Kuhn, Loeb & Co.; Kidder, Peabody & Co. and White, Weld & Co. (jointly); Glore, Forgan & Co.; Lehman Brothers; Equitable Securities Corp.; Union Securities Corp. and Salomon Bros. & Hutzler (jointly); Merrill Lynch, Pierce, Fenner & Beane; Harriman Ripley & Co., Inc.

Montana-Dakota Utilities Co.
May 2 it was announced company plans to issue and sell in 1953 approximately $8,000,000 of first mortgage bonds. **Proceeds**—For 1953 construction program. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc., Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly).

★ **Monterey Oil Co.**
May 1 it was reported company may, following 10-for-1 split, register in June from $1,000,000 to $3,000,000 common stock which may include some stock for account of selling stockholders. **Price**—Expected to be around $30 per share. **Underwriter**—Lehman Brothers, New York.

New York State Electric & Gas Corp.
Feb. 27 it was reported that company may, later in 1953, issue and sell $20,000,000 first mortgage bonds (following private sale of 75,000 shares of 4.40% preferred stock, par $100 in February and $5,000,000 of 3¾% debentures due 1991 in April). **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp. and Glore Forgan & Co. (jointly); Blyth & Co., Inc. and Smith, Barney & Co. (jointly); Hemphill, Noyes & Co. and Drexel & Co. (jointly); Kidder, Peabody & Co. and Salomon Bros. & Hutzler (jointly); Lehman Brothers; Harriman Ripley & Co., Inc.

New York Telephone Co. (6/23)
Feb. 26 company applied to New York P. S. Commission for permission to issue and sell $35,000,000 of refunding mortgage bonds, series G due 1984. **Proceeds**—To repay bank loans and for construction program. **Underwriters**—To be determined by competitive bidding. Probable bidders Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Merrill Lynch, Pierce, Fenner & Beane and Glore, Forgan & Co. (jointly); Kuhn, Loeb & Co. **Bids**—Tentatively scheduled to be received up to 11 a.m. (EDT) on June 23. **Registration**—Expected about May 22. **Stock Offering**—Company also plans to issue and sell to American Telephone & Telegraph Co., its parent, 700,000 additional shares of common stock (par $100).

Ormond Corp., Albuquerque, N. M.
March 10 it was announced company plans to register with the SEC an issue of stock, which will be offered nationally. **Office**—5003 Central Avenue, N. E., Albuquerque, N. M.

Pennsylvania Electric Co. (6/23)
April 1 it was reported company plans to issue and sell in June about $12,500,000 first mortgage bonds due 1983 and a like amount later on. **Proceeds**—For construction program. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co.; Kidder, Peabody & Co.; The First Boston Corp.; Equitable Securities Corp. **Bids**—Tentatively set for 11 a.m. (EDT) on June 23. **Registration**—Expected on May 12.

Permian Basin Pipeline Co., Chicago, Ill.
Feb. 4 company filed an amended application with FPC for authority to construct a 163-mile pipeline system at an estimated cost of $40,269,000. Probable underwriters for convertible notes and stock; Stone & Webster Securities Corp.; and Glore, Forgan & Co., both of New York. Of the stock of this company, 51% is now owned by Northern Natural Gas Co.

● **Pittston Co.**
May 6 stockholders approved a $20,000,000 financing program, which will involve the private placement of 20,000 shares of new preferred stock (par $100) and the sale, partly private and in part to public, of $6,000,000 of 6-year 4% collateral trust notes, series A, and $12,000,000 of 18-year collateral trust sinking fund notes, series B. **Proceeds**—To refund long-term debt of $15,000,000 and for working capital. **Underwriter**—Blair, Rollins & Co. Inc., New York.

Public Service Co. of Oklahoma
March 2 it was reported company may issue and sell 40,000 shares of new preferred stock (par $100). **Underwriters** — To be determined by competitive bidding. Probable bidders: Glore, Forgan & Co.; Smith, Barney & Co.; Kuhn, Loeb & Co.; Harriman Ripley & Co., Inc., and Central Republic Co. (Inc.). **Proceeds**—For additions and improvements.

Public Service Electric & Gas Co.
Feb. 25 it was announced company plans issuance and sale in June of $50,000,000 of first refunding mortgage bonds. **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 Lehman Brothers (jointly); Mor-

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gan Stanley & Co. and Drexel & Co. (jointly); The First Boston Corp.

Remington Corp., Auburn, N. Y.
April 14, Herbert L. Laube, President, following approval of the increase and split-up of common and preferred stock, stated that the increased capitalization is necessary because the profit left after today's taxes is far from enough to finance this corporation's continued growth. The common was increased from 50,000 shares, par $5, to 1,000,000 shares, par $1, and split-up on a 5-for-1 basis, and the preferred stock increased from 2,500 shares, par $25, to 50,000 shares, par $10, and split-up on a 2½-for-1 basis.

★ Rochester Gas & Electric Corp.
May 3 company announced that, in addition to the proceeds from the sale about May 28 of 175,000 shares of new common stock to stockholders (registered May 8 with the SEC), approximately $27,000,000 will be required from additional financing in the future in connection with its $35,300,000 construction program planned for 1953 and 1954.

● Shield Chemical Corp., Verona, N. J. (5/25)
March 26 it was reported company plans to issue and sell about $300,000 of common stock. **Proceeds**—For working capital. **Underwriter** — Miller Securities Co., New York

Southern California Edison Co.
April 23, William C. Mullendore, President, stated that company is considering selling sufficient securities later in the year to raise approximately $30,000,000. **Proceeds**—For 1953 construction program. **Underwriters**—May be determined by competitive bidding. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; The First Boston Corp. and Harris, Hall & Co. (Inc.) (jointly); Blyth & Co., Inc.; Kuhn, Loeb & Co. Probable bidders for preferred: The First Boston Corp. and Harris, Hall & Co. (Inc.) (jointly).

Southwestern Gas & Electric Co.
April 29 it was announced company later this year will issue and sell 50,000 shares of cumulative preferred stock (par $100). **Underwriters** — May be determined by competitive bidding. Probable bidders: White, Weld & Co. and Kidder, Peabody & Co. (jointly); W. C. Langley & Co and Paine, Webber, Jackson & Curtis (jointly); Harriman Ripley & Co. Inc.; Merrill Lynch, Pierce, Fenner & Beane and Union Securities Corp. (jointly); Lehman Brothers; Blyth & Co. Inc., and Stone & Webster Securities Corp. (jointly).

Strategic Materials Corp., Buffalo, N. Y.
April 14 it was reported company plans to offer for subscription by its common stockholders about $1,000,000 of additional common stock. **Underwriters**—Hamlin & Lunt, Buffalo, N. Y., and Allen & Co., New York.

Tennessee Gas Transmission Co.
March 27 it was reported company expects to do some debt financing this Fall (under $50,000,000) to replace short-term bank loans. (This is in addition to 1,000,000 shares of common stock filed with SEC on April 10—see above.) Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Stone & Webster Securities Corp. and White, Weld & Co. (jointly).

★ Transcontinental Bus Lines, Inc.
May 4 it was reported certain stockholders plan sale of 240,000 shares of common stock (par $1). **Underwriters**—Equitable Securities Corp. and A. C. Allyn & Co., Inc. **Offering**—Expected today (May 14).

Transcontinental Gas Pipe Line Corp.
May 4 it was reported company may issue some convertible preferred stock before the Fall. **Underwriters**—Probably White, Weld & Co. and Stone & Webster Securities Corp., both of New York.

● United Gas Corp., Shreveport, La.
May 1 it was announced company plans to raise $50,000,000 during 1953 through the issuance and sale of additional common stock (par $10) and debentures. Earlier reports stated that about $20,000,000 of stock may be offered for subscription by common stockholders on a 1-for-15 basis and that the debenture offering will be about $30,000,000. **Proceeds**—For 1953 construction program. **Underwriters**—For stock, none. For debentures, to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co., White, Weld & Co. and Equitable Securities Corp. (jointly); The First Boston Corp., Harriman Ripley & Co., Inc. and Goldman, Sachs & Co. (jointly).

Utah Power & Light Co.
March 16 it was announced stockholders will vote May 18 on increasing the authorized common stock from 2,000,000 shares (1,842,500 shares outstanding) to 2,500,000 shares in order to provide additional stock for future needs. Company's construction program for the three years (1953-1955) is estimated at $42,000,000.

Walworth Co.
March 25 stockholders voted to increase authorized common stock from 1,900,000 shares to 2,500,000 shares and to grant directors right to issue all or part of increased stock without prior offering to stockholders; also to reserve part of the additional shares for issue upon conversion of convertible 3¼% debentures due May 1, 1976. **Underwriter**—May be Paine, Webber, Jackson & Curtis, New York and Boston.

● Washington Gas Light Co. (6/15)
May 11 it was announced company plans to issue and sell $7,000,000 of refunding mortgage bonds. **Proceeds**—For new construction. **Underwriters** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co. and A. C. Allyn & Co. Inc. (jointly); Merrill Lynch, Pierce, Fenner & Beane and Stone & Webster Securities Corp. (jointly); Equitable Securities Corp.; Kidder, Peabody & Co.; Union Securities Corp. **Bids** — Expected to be received on June 15. **Registration**—Expected in near future.

Washington Water Power Co.
April 10 it was announced directors have approved the issuance and sale in May of $10,000,000 of first mortgage bonds and $18,000,000 of debentures. **Proceeds**—To repay $24,000,000 of bank loans and to redeem 35,000 shares of $6 preferred stock at $110 per share. **Underwriters**.—If competitive, bidders may include: Halsey, Stuart & Co. Inc.; Union Securities Corp. and Lehman Brothers (jointly); Blyth & Co., Inc., Smith, Barney & Co. and White, Weld & Co (jointly); W. C. Langley & Co. and The First Boston Corp. (jointly). However, both issues may be sold privately through Kidder, Peabody & Co.

West Texas Utilities Co.
March 2 it was reported that company plans issuance and sale of 100,000 shares of new preferred stock. **Underwriters** — May be determined by competitive bidding. Probable bidders: Stone & Webster Securities Corp.; Harriman Ripley & Co., Inc.; Union Securities Corp.

Westcoast Transmission Co.
April 10 it was stated company may issue and sell $59,000,000 of 4% first mortgage bonds to insurance companies (including Prudential Insurance Co. of America, New York Life Insurance Co.; Northwestern Mutual Life Insurance Co. and several Canadian companies); $25,000,000 of 3% to 4% short-term notes to the National City Bank of New York; and about 3,500,000 shares of common stock for about $30,000,000. **Proceeds**—To finance construction of a natural gas pipe line from the Canadian Peace River field to western Washington and Oregon. **Underwriter**—Eastman, Dillon & Co., New York.

Western Light & Telephone Co., Inc.
April 10 it was announced that stockholders voted to increase the authorized preferred stock (par $25) from 250,000 shares to 400,000 shares and the common stock to 700,000 from 500,000 shares. The sale of about $3,000,000 first mortgage bonds and 80,000 shares of preferred stock is expected in June. **Proceeds**—For new construction. **Underwriter**—Harris Hall & Co., Inc., Chicago, Ill.; The First Trust Co. of Lincoln (Neb.).

★ Wisconsin Central Ry.
May 12 company sought approval of the ICC to issue and sell $3,930,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros & Hutzler.

Wisconsin Public Service Corp.
March 17 it was reported that the company may, late this year or early in 1954 issue and sell some common stock to round out its financing program. **Underwriter**—May be The First Boston Corp. and Robert W. Baird & Co. (jointly).

Worcester Gas Light Co.
April 2 it was announced company has applied to the Massachusetts Department of Public Utilities for authorization to issue and sell $3,000,000 of 20-year first mortgage bonds. **Proceeds**—To retire bank loans, etc. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; First Boston Corp.; Blyth & Co., Inc.; Kidder, Peabody & Co.

Our Reporter's Report

Anxiety among underwriters, and others in the investment business, over the behavior of the market is getting beyond the conversation stage, as one astute observer put it this week.

He views the current situation as the real test of fire for competitive bidding which makes the raising of new capital for corporate borrowers a trying business.

Things have reached a point where some people are loath to go after business via this method even in the case of obligations carrying top rating. There is a growing tendency to "drop out" on big ones, and this includes municipal issues as well as corporates.

For the present many of the bids being entered represent little more than an idea of conditions needed to hold a group together and are not regarded as a fair gauge of the worth of a given issue.

The missing link to more satisfactory basic conditions is, of course, the absence of real firmness in the government market.

But in that direction it appears that things are shaping up somewhat better. The market while still nervous over the past week, has been hovering in narrow limits and gives some indication of working out a new base.

Putting One Over

The marked success of this week's offering of $18,000,000 of new 30-year first mortgage bonds for the Alabama Power Co., provided underwriters with their first good reason to cheer in quite a while.

Bankers paid the company a price of 101.804 for the issue with a 4⅛% coupon. A number of other bids, all for the same interest rate, ranged down from 101.60 to 100.359.

But priced for reoffering at 102.172 for a 4% yield, this issue was snapped up quickly, though after a slow start. And what made it doubly interesting was the reported appearance of some big name investors on the buying side.

Lightening the Load

Although there has not been any duplication of the action of Southern Bell Telephone Co., which withdrew its projected offering last week when bids did not prove to its liking, the behavior of the market has caused some other prospective borrowers to revise their plans somewhat.

Latest to take such action is the Consolidated Natural Gas Co. which had scheduled bids for $40,000,000 of new debentures for May 26.

Presumably with the idea of getting the best rate possible directors decided to reduce the proposed financing to $25,000,000. It will seek the balance of funds needed for its construction program later probably in short-term bank debt.

Big Test Ahead

Now that W. Randolph Burgess, Deputy Secretary of the Treasury, has replied to the 19 Democratic critics of the Administration's firmer money policy, it looks as though the die is cast. Bankers can only assume that, unless Congress forces it, there will not be any change in present plans to have the Treasury pay the going rate for new funds it raises.

So that brings up what could prove a real test of near-term market outlook when Pacific Gas & Electric Co. opens bids next Tuesday for $65,000,000 new 31-year first and refunding bonds.

Three banking groups are definitely in the field for this undertaking which is designed to provide the issuer with funds to carry on its construction program.

In Retrospect

T. M. Girdler, Chairman of Republic Steel Corp., gave his stockholders a little insight into what has taken place in the field of corporate borrowing over a period of 20 years or more.

Current borrowing rates are well-above those of the New Deal-Fair Deal period of extreme money ease. But they are low by comparison with the late 20s and early 30s. Mr. Girdler noted that in 1931 Republic had 13 bond issues out with rates as high as 8% and averaging 6%.

Now it has only five issues outstanding, with interest cost averaging around 3%.

Twin City Bond Club 32nd Annual Picnic

MINNEAPOLIS, Minn. — The Twin City Bond Club will hold its thirty-second annual golf tournament and picnic June 4th at the White Bear Yacht Club. Tariff for non-golfing members, $6.00; for golfing members, $8.00; guests, $25.00. A preliminary cocktail party will be held at the Nicollet Hotel, Minneapolis, in the Waikiki Room, June 3rd from 6:30 to 9:30 p. m. Registrations should be made with Paul E. Matsche, Paine, Webber, Jackson & Curtis, St. Paul.

Events planned for June 4th are the golf tournament, starting at 9 a.m.; tennis from 2 to 4:30 p.m.; horseshoes, 1:30-4:30 p.m.; bridge, 2:30 to 4:30 p.m. Swimming and boating. A morning snack will be served at 9 a.m.; luncheon from 12 to 2:30 p. m.; dinner at 7 p. m.

Committee chairmen for the outing are: Fred S. Goth, Irving J. Rice & Co., St. Paul, General Chairman; cocktail party, Robert L. John, Woodard-Elwood Co., Minneapolis; Transportation, Oscar M. Bergman, Allison-Williams Co., Minneapolis; Tennis and horseshoes, Leonard A. Murray, Piper, Jaffray & Hopwood, Minneapolis; Golf, J. Ries Bambenek, J. M. Dain & Co., Minneapolis; Publicity, Stanley R. Manske, First National Bank of St. Paul; Special Prizes, William E. Ritt, Merrill Lynch, Pierce, Fenner & Beane, Minneapolis; Registration, William W. Lewis, Merrill Lynch, Pierce, Fenner & Beane, Minneapolis; Prizes, George A. A. MacDonald, First National Bank of Minneapolis; Entertainment, Mort H. Stanford, Caldwell-Phillips Co., St. Paul; Prize Solicitation, Douglas M. Warner, Paine, Webber, Jackson & Curtis, Minneapolis, and Paul E. Casserly, Merrill Lynch, Pierce, Fenner & Beane, St. Paul; Bridge Tournament, Irving J. Rice, Irving J. Rice & Co., St. Paul, and Howart T. Booth, Paine, Webber, Jackson & Curtis, Minneapolis.

To Attend Meeting of Calif. Bankers Ass'n

Nearly 600 bankers from some 190 banks in California and 20 associate member banks outside of the State will attend the 62nd Anniversary Convention of the California Bankers Association at the Hotel del Coronado, Coronado, Calif., May 17, 18 and 19, according to Oscar Mennenga, Executive Manager of C. B. A.

Representatives from ten New York banks will attend the convention. They include: J. A. Hannan, Jr., Assistant Vice-President, Bank of New York; Alfred Brittain, III, Assistant Treasurer, Bankers Trust Company; Lawrence C. Freer, Vice-President, Chase National Bank of the City of New York; Thomas G. Anderson, Vice-President, Corn Exchange Bank Trust Company.

J. Arthur McKaig, Second Vice-President, Guaranty Trust Company of New York; William Feick, Vice-President, Irving Trust Company; C. F. MacLellan, Assistant Secretary, Manufacturers Trust Company; Philip Conway, Assistant Vice-President, National City Bank of New York; R. L. Ireland, III, Vice-President, New York Trust Company; and Louis E. Imhof, Vice-President, the Hanover Bank.

Ernest A. Mayer With Cruttenden & Co.

CHICAGO, Ill.—Ernest Mayer has joined Cruttenden & Co., 209 South La Salle St., members of the New York and Midwest Stock Exchanges, as Assistant Sales Manager. He was formerly with Ames, Emerich & Co., and before that a partner in the firm of Dayton & Gernon.

Ernest A. Mayer

R. V. Horton Director

R. V. Horton

R. V. Horton, partner of Goldman, Sachs & Company, New York investment bankers, has been elected to the board of directors of the Minneapolis-Moline Company, according to W. C. MacFarlane, President and General Manager of the company.

Horton, who was elected to this post at a regular meeting of board held in April, is a graduate of Cornell and Harvard Universities.

Robert H. King With Bache Co. in Chicago

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Robert H. King has become associated with Bache & Co., 135 South La Salle Street. Mr. King was formerly a partner in Faroll & Company.

With Keller & Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Abraham Rosen has become associated with Keller & Co., 50 State Street. He has recently been with Lerner & Co.

Howard E. Phillips Is Now With Bache & Co.

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, Ohio — Howard E. Phillips has become associated with Bache & Co., Dixie Terminal Building. He was formerly with Prescott & Co. and prior thereto was an officer of Smart, Clowes & Phillips, Inc.

George W. Ratterman has also become associated with Bache & Co.'s Cincinnati office.

Smith Named Sales Mgr For Barham & Co.

CORAL GABLES, Fla.—Major W. Gordon Smith AUS (ret.) has been appointed Sales Manager of Barham and Company, 2207 Ponce de Leon Boulevard.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—In the great relief among them that Harry Truman has finally passed off the national scene, and in the ardent hope that nobody like him will show up in 1957, conservatives — businessmen, newspapermen, doctors, lawyers, merchants, and chiefs —have adopted a current fashion of always trying to look upon the bright side of the new national management and hope for the best.

Unfortunately, however, this attitude obscures the fact that underneath the surface the private relations between Congressional Republicans and the White House could hardly be worse. It is being said around here that even Senator Robert A. Taft is rather heavily miffed.

Newswise, what is developing is that if certain things are not mended in the next 90 days the Republican governmental machine is just about to fall apart. GOP Congressional leaders have the appearance of being as frustrated and bewildered a crowd as one ever saw.

It does not now appear to be a question of "revolt against the White House," in any sense comparable to the conservative Democratic revolts against Roosevelt and Truman.

Even if leaders were in a mood to revolt, overt opposition to the White House would be difficult. On Mr. Eisenhower's spending cuts, and on reciprocal trade, Democrats are being Democrats first. The so-called Southern Democratic - Republican coalition has not been mentioned around these parts for many a week.

However, the announcement by Treasury Secretary Humphrey that he opposes balancing the Federal budget for fear of cuts jeopardizing national security — the same Truman stand that the country cannot afford to balance the budget—strains the disposition of the GOP Congressional leaders to stay hitched to the White House.

Instead what is confronting the Republican Congressional following is a sort of disintegration of their will to do, a sort of strangulation, of falling into a well of despond.

Trade Deal Irritates

One of the most amazing illustrations of the snafu between Congress and the White House is the current scrap over reciprocal trade extensions, "one year, without major change."

All of the big guns from Eisenhower to Dulles have brought their artillery to bear on this one. They even imported the Prime Minister of Canada, with one of the most protected manufacturing industries in the world, to come down here and sing for the Reciprocal Trade Agreements Act.

Factually if the present Reciprocal Trade Agreements Act were continued without a single change, not a single new trade agreement would be negotiated in the next several months, perhaps in not a year.

Factually the present capacity of a President of the United States to enter into new trade agreements is all but exhausted. He has reduced tariffs by ALL the authority he can reduce tariffs under existing law.

Furthermore, not a single operating trade agreement will expire if the existing Act were to fail to be renewed. These existing trade agreements continue as a rule indefinitely until after notice of termination by either party.

This, of course, is not conjecture, but fact which can be confirmed readily.

Hence, even if the Act is continued without flaw for one year the Administration will not be empowered thereby to take a single step to promote "trade not aid," or in any way thereby be enabled to right Europe's economic wrongs, or redress dollar imbalances.

Issue Is "Psychological"

Nevertheless, the Administration does, of course, have reasons which it considers valid for pushing this Act's extension. A failure to get it extended would be taken by Europe as a symbol of a dominance of protectionism. Furthermore, the pending Simpson bill would definitely put a crimp on some imports, existing trade agreements notwithstanding.

So in protecting its harmony with the foreign customers for U. S. influence, the Administration does see a tangible advantage in its stand on this issue.

Congress Has Issue

Against the psychological advantage in international politics, there is a distinct psychological loss on the domestic front. Even if it is taken for granted that Mid-West voters are all economic knaves and fools in still cherishing protectionism, the political reality is that protectionism is vote-getting and liberal world trade policies are vote-losing, and it happens that a rock of GOP strength is in these particular benighted constituencies.

Hard-headed politicians do not presume that a statesmanlike President is supposed to adopt ALL his policies with a view to consolidating GOP Congressional support from protectionist-minded constituencies.

On the other hand, as the President was told with rather considerable spirit not very many days ago, Republicans have "got to have something to get elected on."

See Other Frustrations

That the GOP Congressional crowd sees little other prospective vote bait came to a head here about the time the President was announcing his new defense and foreign aid policies. For instance:

(1) The President again made it clear that he opposes the Reed bill. In politics, apples are, figuratively speaking, often traded for bananas. If the President could readily see his way to back this mild tax reduction, it would help much on reciprocal trade.

(2) The President's real policy on foreign aid will not go over well West of the Alleghenies or East of the Rockies. The Administration, it is said on the Hill, is very definitely out for continued high-volume aid even though the European Defense Community agreement is a long way from ratification, and even though the real requirement for foreign aid is an expenditure by European governments of only those sums which Europe feels it wants to spend, target or no target.

See Permanent Defense Of Many Billions

(3) What appalled the President's Congressional following however, was his adoption of the policy of permanent, large-scale spending for U. S. defense as well as for foreign aid, for so long as Russia continues to remain a threat.

Neither Mr. Eisenhower nor his principal aides would give the Congressional leadership any clue as to how much it was contemplated would be spent, year after year, indefinitely so long as the Russian threat remains.

All they got was a hint that maybe disbursements for U. S. defense might drop to \$44 billion for fiscal 1954, versus \$46¼ billion estimated by Truman, and maybe on a permanent annual basis they would drop somewhat lower than \$44 billion.

See New Attitude On REA Sales

It is understood that a new attitude will be taken by the Department of Agriculture with respect to the sale of REA "cooperatives" if and when private utilities might approach such agencies with a view to purchasing them. The Department, however, will not try to promote such sales on its initiative.

Heretofore, according to repute, and before the advent of the new Administration, whenever there appeared to be any deal in the offing whereby a private utility might buy an REA co-op, the REA boys sent their squads out to try to frustrate the deal.

Obviously a decrease in the number of REA projects, serviced, advised, and in debt to the government, threatens a decrease in the size of the bureaucratic establishment necessary to nurse these enterprises along.

On the other side of the picture, every dollar paid for an REA co-op is a dollar free and clear to the Treasury, for it is direct Federal money tied up over a long term of years, which has financed the construction of REA lines.

This new attitude, it is said, is of more than academic importance, for here and there, may be found REA co-ops which would like to sell out.

The "cooperative" legal form in which these projects are set up is of importance should a sale be involved. If the customer-members of an REA co-op vote to sell out to a privately-owned public utility, and if they get sufficient from the sale to pay off their indebtedness to the government, then the deal can go through.

So far as the new management of the Department of Agriculture is concerned, it is said, no overt OR covert objection will be interposed to such deals, if (1) the government is paid out in full, and (2) the farmers are assured adequate electrical service at a fair cost.

(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.)

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Business Man's Bookshelf

Analysis and Evaluation of Credit Management Functions—Credit Research Foundation, Inc., 229 Fourth Avenue, New York 3, N. Y.—cloth—\$15.00.

Chemicals—The Fastest Growing Major Industry—E. W. Axe & Co., Inc., 730 Fifth Avenue, New York 19, N. Y.—paper—\$1.00 (50c to Public Libraries and non-profit institutions).

Democracy in Labor Unions—Selected references — Industrial Relations Section, Princeton University, Princeton, N. J. — paper —20c.

Excess Profits Taxation — A Symposium—Tax Institute, Incorporated, 457 Nassau Street, Princeton, N. J.—cloth—\$5.00.

Foreign Trade and U. S. Tariff Policy—A Report on the Views of Leading Citizens in Twenty-five Cities—Council on Foreign Relations, 58 East 68th Street, New York 21, N. Y.—paper—50c.

Present Day Banking 1953—American Bankers Association, 12 East 36th Street, New York 16, N. Y.—cloth.

Let's Work Together in Community Service — (Summary and interpretation of Bradley Buell's book, "Community Planning for Human Service,")—Eloise Walton, Public Affairs Committee, 22 East 38th St., New York 16, N. Y.—paper—25.

Pay Contracts With Key Men—188 pay plans, agreements, clauses—William J. Casey and V. Henry Rothschild II—Business Reports, Inc., 1 Main Street, Roslyn, N. Y. —\$12.50.

Regulations Concerning Dealings in Gold and Foreign in France—13th Supplement — Bank for International Settlements, Basle, Switzerland — paper — 6 Swiss francs (complete compilation, original edition and 13 supplements, in two volumes, 90 Swiss francs; complete series of three volumes including revoked regulations, 120 Swiss francs).

The Exchange—Monthly magazine with special articles on stocks listed on the New York Stock Exchange, etc.—\$1 per year—Dept. C, The Exchange Magazine, 20 Broad Street, New York 5, N. Y.

Window on Red Square, A — Frank Rounds, Jr. — Houghton Mifflin Company, 2 Park Street, Boston, Mass.—cloth—\$3.00.