AMERICAN BANKERS ASSOCIATION CONVENTION ISSUE

# The COMMERCIAL and FINANCIAL CHRONICLE

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EDITORIAL

## As We See It

We have apparently reached another of those stages when to some a depression appears "inevitable." This is, of course, not the first time we have been told that serious trouble is in store for us. On the contrary, we have often heard such predictions of late years, and they were certainly not unknown in previous times. Upon occasions, these gloomy forecasts have proved correct; sometimes they have appeared rather childish in retrospect. This time, as usual, continued forecasts of this sort have drawn warnings that we are in danger of "talking ourselves into a depression."

What the future holds in the instant case, the future will have to disclose. There can be no question that in some segments of industry and trade, the rate of activity has been reduced already. It appears about equally clear that certain indications seem to point to further decline in the volume of business. On the other hand, there has been a distinct improvement in some other lines of business during the past half year. It is not particularly difficult, if one is inclined to it, to build up a pretty good case for expecting substantial deterioration in business in the months ahead. Neither is it impossible to "prove" that any recession which makes its appearance will be moderate and relatively short-lived. Periods of some uncertainty such as this—and periods in which we are regaled with forecasts galore—will doubtless come and go in the future as they have in the past.

There is, however, an aspect of the current state of affairs which gives us some concern. It is an inevitable outgrowth of the psychology and the philosophy from which the so-called full em-

Continued on page 43

## Excess Profits Tax Lapse And Tax Cuts in Offing

By HON. GEORGE M. HUMPHREY*
Secretary of the Treasury

**After designating as the principal pillars of sound money: (1) a proper budget policy; (2) a properly functioning Federal Reserve System; and (3) proper debt management, Secy. Humphrey indicates government spending appears to be on road to reduction, and the Excess Profits Tax will expire at end of year. Foresees also an average of 10% reduction in income taxes, and says further adjustments in tax system is under consideration. Gives assurance Administration is dedicated to maintenance of high employment and production and will pursue policies toward that end.**

Since you as bankers are concerned intimately every day with the money problems of this nation, I am going to take the liberty this morning of talking for a few moments about what this Administration is trying to do to achieve sound money. I say sound, not hard but honest money.


George Humphrey

Sound money is based upon three principal pillars—a proper budget policy, a properly functioning Federal Reserve System, and proper debt management. This Administration is working constantly to strengthen all three pillars. Our goal in each of these areas is clear. If we have not achieved our goal overnight, it is not only because of the size of the job itself but also because we realize that our economy is a very sensitive mechanism and we must proceed carefully, but always steadily, toward the goal we seek. Too drastic and precipitous action might react badly in many ways. We must approach our objec-

Continued on page 32

*An address by Secy. Humphrey at the 79th Convention of the American Bankers Association, Washington, D. C., Sept. 22, 1953.

## ABA Holds 79th Annual Convention

**Meeting held in Washington, D. C., from Sept. 20 through Sept. 23. Everett D. Reese, President of the Park National Bank of Newark, Ohio, succeeds W. Harold Brenton as President, and Homer J. Livingston, President of the First National Bank of Chicago, becomes Vice-President. Sherman Drawdy is elected Treasurer. Addresses by President Eisenhower, Secretary of Treasury Humphrey, Deputy Secretary W. Randolph Burgess, Federal Reserve Governor Robertson, Secy. of Agriculture Ezra T. Benson, Roy L. Reierson, Casimir A. Sienkiewicz, and others given herein. Association's membership now comprises 16,873, or over ninety-eight percent of nation's banks.**

The American Bankers Association held its 79th Annual Convention at Constitution Hall in Washington, D. C., from Sept. 20 through Sept. 23,


Everett D. Reese


Homer J. Livingston


Sherman Drawdy

and before adjournment elected Everett D. Reese, President of the Park National Bank, Newark, Ohio, as President of the Association to succeed W. Harold Brenton, President of the State Bank

Continued on page 44

**MORE ABA ADDRESSES IN THIS ISSUE — In addition to the material on the cover page, we present in this issue, starting on page 16, texts of other addresses made during the course of the 79th Annual Convention of the American Bankers Association.**

# 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

White Motor Co. 5¼% Preferred Stock—Max L. Heine, Partner, Spingarn, Heine & Co.; Vice-President, Mutual Shares Corporation, N. Y. City (Page 2)

Big Horn-Powder River Corporation—George A. Kuhnreich, Investment Counsel, New Hyde Park, New York. (Page 2)

MAX L. HEINE
Partner, Spingarn, Heine & Co., N.Y.C.
Members New York Stock Exchange
Vice-President Mutual Shares Corp.

**White Motor Co. 5¼% Preferred Stock**

White Motor Co. is a leading producer of trucks and buses. Trucks and truck-tractors, in conventional and cab-over-engine types, include heavy and lighter-weight models, and city and suburban delivery units. The line was broadened by the 1951 acquisition of Sterling Motor, maker of special-purpose units. White distributes and services Freightliner units in the West. A new type axle unit was introduced in 1952.

Max L. Heine

Replacement parts and service accounted for 34% for commercial sales. Military trucks, trailers, and tank aircraft parts, contributed 14% of 1952 sales.

Domestic and Canadian distribution is handled through 43 direct factory branches and 470 dealers and distributors. There are also 110 overseas distributors.

The Cleveland plant has an annual capacity of some 25,000 units; 1952 shipments totaled 15,035.

The acquisition of Autocar Co. in fall of 1953 rounds out its line of heavy duty vehicles.

In connection with this acquisition White Motor issued 86,500 shares of its 5¼% preferred stock. The issue is callable at 102 until June 30, 1955, at 101 to June 30, 1956, and thereafter at 100.

A significant feature of this stock is the sinking fund of 10% a year to begin to operate before June 30, 1958 scheduled to retire the entire issue by June 30, 1967. While the dividend is payable out of net profits of the company, when and as declared by the Board of Directors, the sinking fund is an absolute obligation of the company as long as funds are legally available for that purpose. The charter expressly provides that sinking fund payments may be met even if the company is in default on the preferred dividend.

White Motors Co., according to the June 30, 1953 report, has a net working capital of $53,000,000 and long-term debt due through 1956 of $16,000,000. The acquisition of Autocar will add an excess of $9,000,000 in net current assets above all liabilities.

Operations have been consistently profitable since the depression, profits averaging about $4,000,000 in the last few years. Defense product business in the last six months period was 9.9% of total net sales.

I believe that in view of the large mandatory sinking fund and the generous present yield the 5¼% preferred stock of White Motors Co. is comparatively more attractive than most other preferred stocks on a similar yield basis.

GEORGE A. KUHNREICH
Investment Counsel,
New Hyde Park, N. Y.

**Big Horn-Powder River Corporation**

One of the small American oil independents, Big Horn-Powder River Corporation has made rapid progress in building up crude oil production. It also has acquired interests in some 42,000 acres of Rocky Mountain leases ranging from overriding royalties to 100% working interests.

George A. Kuhnreich

Weston County, Wyoming, contains over 11,000 acres of the Company's most important leases. This consists of a 100% working interest in 600 acres, a 50% interest in approximately 2,880 acres in the Southwest Clareton field, and a 40% interest in approximately 7,880 acres held jointly with the Union Oil Company of California in the same trend in the Black Thunder area. Big Horn, jointly with an independent oil operator, discovered the Clareton field in mid-January 1953. The initial test well struck at a depth of about 6,700 feet and flowed 589 barrels of 44° gravity oil in 12 hours. At the time, the "Oil & Gas Journal" described the well as "one of the most important discoveries on the east side of the Powder River Basin in several years." The oil is produced from the Newcastle sands which are believed to underlie a considerable portion of the acreage. Subsequently, the Company completed 5 additional wells while other operators have completed over a dozen wells north, east and south of Big Horn's acreage.

Big Horn's production moves via the Plains Pipe Line which joins the Platte Pipe Line and connects with Denver, Kansas City, Wood River, Illinois and other eastern refining centers. Only recently, the Plains Pipe Line found itself unable to handle the rapidly expanding flow of oil from the Clareton field and it is now asking the Wyoming Public Service Commission for permission to build a new line to its terminal facilities at Lance Creek, Wyoming. Big Horn's high gravity crude now commands a price of $2.90 a barrel.

The Southwest Clareton discovery has had a dramatic impact on the company's revenues. For the month of May, 1952, Big Horn's net interest in gross revenues amounted to only $9,000. By June, 1953, revenues exceeded $44,000 and are expected to show further substantial increases. With pipe line congestion eased by completion of the new line within three or four months, it is estimated that revenues could be running at an annual rate of $1,000,000. Crude oil production, it may be observed, increased from a daily average of approximately 278 barrels for July, 1952 to 875 barrels for July 1, 1953. With each new completion, production should show additional gains.

Results of this year's drilling activity are summarized in the table below. Particularly notable has been the Mary Wakeman #4, which came in on September 1 for an estimated daily flow of 1,920 barrels.

While revenues have expanded sharply in the past eight months, and cash flow has increased substantially, all available funds are being utilized to finance a stepped-up drilling program. Following the completion of the E. W. Wakeman #1 late in September, six additional wells in the 50% owned leases are scheduled for this year. Also under consideration are additional drillings in the joint leases with Union Oil.

Since Big Horn has a heavy duty rig under full time contract, its drilling program should be expedited. The average drilling time required for a well is 20 days, and costs amount to about $10 a foot. Drilling time and costs are considerably less than in other areas. There are no production restrictions in Wyoming other than 40 acre spacing per well.

Allen Enterprises, Inc., is currently proposing the construction of a natural gasoline plant for the processing of Southwest Clareton gas. Presently, gas is being flared off in the field, and with the completion of this plant, Big Horn should realize additional earnings from the sale of natural gas.

Successful wildcatting is not a new experience to Big Horn. In 1948, the company brought in the discovery well in the Fiddler Creek area of Wyoming and now has 16 producing wells in this field. Steps are now being taken to unitize this field under the direction of the Texas Company. Big Horn's total recoverable reserves at Fiddler Creek are estimated at 2.2 million barrels.

This month, drilling will be resumed in the Hovenweep structure of San Juan County, Utah. Big Horn holds a 100% working interest in some 5,000 acres in this area. While this lease must be classified as wildcat acreage, the salt strata and reef conditions under the property are regarded as having favorable implications. To date, two wildcats have been drilled on Hovenweep. The saturated sand in one was not sufficiently porous to produce a commercial well. The other blew in with considerable force and subsequently produced on swab a substantial amount of oil before the use of too heavy drilling mud stopped the flow. At the present time, this latter well is shut in but not abandoned.

The capitalization of the company consists of 5,500,000 shares of capital stock and a 4½% $348,000 mortgage note payable to the Empire Trust Co. As of April 30, 1953 the financial condition of the company was satisfactory. Current assets amounted to $139,000 as compared with current liabilities of $133,000, which includes the current $108,000 installment of the mortgage note due during fiscal 1953.

| Well | Date | Initial Flow— No Bbls. | Test | Pipe Size |
|---|---|---|---|---|
| Mary Wakeman #1 | Jan. 9, 1953 | 589 | 12 hrs. | ⅜-in. choke |
| Mary Wakeman #2 | Mar. 27, 1953 | 264 | 1 day | ⅜-in. choke |
| Mary Wakeman #4 | Sept. 1, 1953 | 80 | 1 hr. | 2⅞-in. tubing |
| Sedgwick A-1 | May 21, 1953 | 585 | 1 day | ⅝-in. choke |
| Sedgwick A-2 | June 7, 1953 | 895 | 1 day | ⅝-in. choke |
| Sedgwick A-3 | July 13, 1953 | 35 | 1 hr. | 2⅞-in. tubing |

# The Market Today and Tomorrow

By KENNETH WARD*

Market Analyst, Hayden Stone & Co., Members N. Y. Stock Exchange

**Market analyst asserts while business machine is slowing down, it is by no means falling apart at the seams; but in any event stocks at today's prices represent unprecedented amount of assets, dividends and earning power. Cites market's extreme selectivity, with long-standing bear movements in many groups. Specifies following bullish factors: (1) Market's conservative valuation of past high earnings; (2) Low dividend payouts; (3) Continuing defense spending; (4) Pump-priming weapons available to Administration—and concludes "this is not the time to follow the crowd and rush for the hills."**

Just recently I felt a little like Daniel Boone when he was asked if he was ever lost in the wilderness. After some hesitation he replied, "No I was never lost, but once I was confused for three days." Who of us during these past few years with such erratic markets and constantly changing news will not admit to confusion at some time or other? I certainly am no exception, for nowhere is pride of opinion more expensive than in the stock market and any opinion I express to you today is with the humbleness that has developed through making many costly mistakes.

Kenneth Ward

The task of a market analyst, never an easy one, has been unusually difficult during the past year and all of us who use the study of charts as part of our forecasting tools, have made an unusual number of errors, especially when we have based the action of the market on the averages rather than on the movements of individual securities.

Last November I suggested to the Security Analysts at their Conference that the stock market, as measured by the Dow-Jones averages, should hold above the 273-275 level for the industrials and 101-102 on the rails and advance by January or February to around 290-295 in the industrials and to 108-110 for the rails. I also said at that time, that if these levels were reached, I would be on the lookout for signs on the horizon of a letdown or mild overall business readjustment, and an intermediate top in the market, but that I doubted that we would see a reaction below the 255-260 level on the industrials and 95-97 on the rails. You will recall that the Dow-Jones industrials topped 295 in January and that the rails reached a high above 112.50 about two weeks earlier in December. I was pretty lucky in that forecast. Thereafter, the stock market began to decline to the accompaniment of the final conclusions of the long drawn out Korean truce negotiations; of deflationary economy measures of defense stretch outs and foreign aid cutbacks adopted by the Administration in Washington in its determination to balance the budget in 1955 and reduce wasteful expenditures. We have been witnessing signs of a letup in industrial lines of business, especially those which have been stimulated by sizable military orders and we have heard a good deal about the new business uncertainty with which many businessmen are viewing the future. The stock market, as measured by the averages, has interpreted developments of recent months much more bearishly than I thought probable as I am quite frank in stating that we have recently seen a downside penetration of levels which I did not believe would be witnessed at this stage of the stock market cycle.

**Bear Market Signal Registered**

Although the Dow theorists, of which I am not one, have been at considerable variance in recent years, I believe they are now unanimous in their belief that last month's action provided a definite bear market signal. Under the Dow theory, the bear market began in January, this year, but was not confirmed until August or eight months and some 32 points in the Dow-Jones industrial average after it started. It is obvious, therefore, that if we are in a bear market it is a very unusual one as its bear signal is now almost nine months late and the last five bear markets, under the Dow theory, have averaged about 15 months. Therefore, under this Dow theory, we may have to have more time, five to six months, to consume, and we will see lower prices in many stocks before a bull market is resumed.

Before commenting further on the market or the Dow theory, let me digress a moment and give you some background material that I use in attempting to arrive at any projected conclusion on the market, written or verbal. Price movements in the market reflect the effect of many different factors, some fundamental, some technical and quite a few psychological. It has been my experience over the years that a careful correlation of all of these factors, weighing them in balance one against the other at time intervals, is about the best way to arrive at any definite conclusion, not only on the course of the market, but on the price of an individual stock. If I were picking the most difficult factor to judge with any degree of accuracy, I would

*An address by Mr. Ward before the Detroit Analysts' Society, Sept. 23, 1953.

Continued on page 36

# INDEX

*Articles and News*



**ABA Addresses and Convention News**



*Regular Features*



*Column not available this week.

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# Why I Am Not Looking For a Depression

By WALTER WILLIAMS*
Under Secretary of Commerce

**Secretary Williams lists as factors why he is not afraid: (1) current strength in the economy; (2) population growth; (3) insatiable consumer wants; (4) sales promotion; (5) expanded research; (6) diversity of our national economy; (7) continued productivity gains; (8) the return to "honest money"; (9) probable slow rate of decline in defense outlays, and (10) an increasingly informed public.**

There are ten factors I should like to list and discuss briefly as to "Why I Am Not Afraid."

(1) *Current Strengths in the Economy:* It is my understanding that others on this program will discuss in detail the various barometers measuring the health of the current business activity. Suffice to say that most—not all, but most of the various barometers continue to point to an active national economy.

Walter Williams

(2) *Population Growth:* When we stop to realize this great throbbing nation of ours gained 19 million in population during the 1940-50 decade and that estimates indicate a 28 million gain in the 1950-60 decade one grasps the enormity of the push being constantly given to the national economy by this one factor of growth alone. Imagine adding a population equal to two Canadas during one ten-year period or three-fourths of a Western Germany, or two-thirds of a United Kingdom! This growth factor is truly an enormous one and is certainly not to be discounted as a strong influence for the continuance of a strong national economy.

(3) *The Wants of the People Are Insatiable:* The word "trade" means exactly that—trade. If each of the adult members of our population thinks in terms of how he can produce the maximum amount of goods or services, he is storing up for himself just that much more of goods and services which he can trade for those of others. To be sure money is the means for negotiating these trades, but fundamentally it is the production of the goods and services by each one of us and the ability to trade them for those of others that are basic. The number of things or services obtainable from the production of others is limited only by our productive capacity and the determination to satisfy our unlimited wants to the maximum extent possible.

(4) *Sales Promotion:* In number 3 above we have noted the insatiability of the wants of each of us as individuals. This is only half of the picture. There is still needed the spark and genius of salesmanship to cause me, the possessor of insatiable wants, actually to go into action to satisfy those wants. The desire to have goods and services is there, but good promotional salesmanship is still necessary to make me, the prospective buyer, move away from mere desire to actual possession. Here, then, is another reason "Why I Am Not Afraid." I believe that as we change from a seller's market to a buyer's market (already various segments of our economy have experienced this transaction) our business economy will find a rebirth of a powerful selling program, the quality and intensity of which have sharply lagged during this past decade or so when the seller could name his own conditions.

(5) *Research:* In 1932 I recall listening to a speech from a man who could not possibly see how we were to emerge from the depression through which we were struggling at that time. He reviewed history to see how a development of the steam engine had given us bootstraps with which to lift ourselves out of earlier depressions; the development of electricity to help us emerge from subsequent business dips; the development of the automobile and the radio as still subsequent lifts. But, he said, as he had sat in his living room the night before delivery of his address he looked about his home and wondered what there could be that he could further want and have. Thus, he concluded that we were in for a long period of dark ages simply because there was nothing new which might give our economy a lift out of the then depression. Compare that attitude of mind with the tremendous new discoveries and the applications of them which have taken place during the 20 years which have intervened since the making of this gloomy prediction.

In this great field of research we have moved forward in the field of electronics. It is to be expected that an enormous further expansion may be had in this field in the years which lie ahead. Colored television is just starting. We are at the threshold of the development of atomic power. In contrast with the complete lack of imagination possessed by the gentleman in 1932, even the least imaginative of us today would be safe in predicting that the developments of the next 20 years will out-startle the developments of the last 20 years, startling as they themselves have been.

Research in the technical field, manufacturing and marketing provides another sound reason as to "Why I Am Not Afraid."

(6) *Diverse Nature of Our National Economy:* This gigantic economy of ours, varied as it is as to geography, population and kinds of business, has in the very fact of wide diversity a strong supporting factor for reasonable stability. An illustration will suffice. The textile business has had its troubles during the past three years. The mortgage business has been booming. Today, the textile business has been emerging from its doldrums whereas the mortgage business, at least certain segments of it, is experiencing some difficulty. Of course, if two or more of our major industries should happen to hit into a period of sharp decline at the same time, we might then be confronted with some serious difficulty in our economy. Extra special effort on the part of business itself, government, and in particular those industries which might provide such a team of disaster should be on guard against that sort of thing happening.

(7) *Productivity Gains:* The Alladin's Lamp of our economy is to be found in this word "productivity." To the extent that we learn to increase the output of our goods and services per capita just to that extent do we make it possible to increase the standard of living of all of our people as a nation and as individuals. Increased productivity flows from: (1) improved technology; (2) improved technical skills; (3) better management; (4) better management-labor relations; and (5) better health and all-around better working conditions in our places of business, our communities, our homes.

(8) *You have heard a good deal lately about Secretary George Humphrey's "honest dollar."* Secretary Humphrey has pointed out that there are three important areas in which efforts are being extended toward the accomplishment of "honest money." The first of these areas has to do with budget and deficit financing. Constantly running deficits automatically result in inflation. Balanced budgets are essential to the having of "honest money." The second area has to do with the operation of the Federal Reserve System without domination by the Treasury. In the past, the value of Government Bonds has tended to be established artificially because of the Treasury domination of the Federal Reserve. Inflation was an automatic accompaniment of these policies. The third area to which Secretary Humphrey refers has to do with the management of the huge national debt. It is important for a stable economy that more of that debt gradually be placed on a long-term basis. Some gains are already being had in connection with the efforts to obtain "honest money." Measured in terms of prices, the long 13-year rise in prices, which is the converse way of saying that the purchasing power of the dollar has been declining for those 13 years seems to be at an end. There has been only a half a cent change in the value of the consumer's dollar during the past six months as compared with a sharp decline of nearly 20 cents over the past six years.

The approach to that position where we can have sound, honest money once again restored to the nation is one of best reasons "Why I Am Not Afraid."

(9) *Defense Expenditures:* Being realistic as to the kind of a world in which we presently live, it is not likely that we are too soon to reach a time when we shall not be obliged to expend large outlays for our national defense. In a word, the decline on the part of government expenditures for defense and other purposes may be expected to continue, but the rate of decline will be such that it is not reasonable to expect too sharp an adverse and sudden impact upon the economy because of the decrease in government expenditures. Business will always adjust itself to gradual changes; it is the sharp, unexpected changes which hurt.

(10) Another reason *"Why I Am Not Afraid"* is because of the fact that increasingly the American people are becoming better informed with respect to those things which have a direct bearing upon the health of their national economy. Recently, Dr. Arthur F. Burns, Chairman of the President's Council of Economic Advisers, whimsically stated that he sometimes wondered if we, as Americans, were becoming too chart-minded, graph-minded, curve-minded, and statistic-minded. Referring to the 1948-49 business dip, he drolly observed that had we not had all of these charts, curves, graphs, and statistics, we might have gone through that period and never known that anything was going on.

The fact that we are a better informed nation as to what causes our economy to tick makes us more sensitive to possible ups and downs all right, but nevertheless we are probably more prone to act in a manner to guard against unwise actions which ignorance would lead us into. Recently, there has been some publicity concerning an economic reporting system purportedly being established by the Administration. These reports have tended somewhat to exaggerate the real facts. Actually, as one of my fellow members on this program today, J. Warren Kinsman, Vice-President of the Du-Pont Co., knows, a meeting was held in the office of Secretary Sinclair Weeks, attended by Mr. Kinsman, Mr. Weeks, myself and two others, at which meeting this very matter of economic reporting was discussed. That meeting was way back on Feb. 9.

Indeed, ever since some of us have been down there in Washington with our minds naturally atuned to the question of how best to maintain a healthy economy, this matter of obtaining current expressions of sentiment throughout the country has been discussed and informally acted upon.

At the present time, therefore, there is no great departure from what we have been doing ever since Jan. 20, except that the process is becoming somewhat more well defined and well ordered as time goes on. It is not expected that any reporting system will take the place of the excellent machinery possessed by different branches of Government in the gathering of important statistics. These statistics serve as excellent barometers by which to measure the health of our national economy. Rather it is the purpose of these economic reports to consult either by phone, telegraph, letter, or by personal conversation, with different key people throughout the country who happen to be in position so that they have their fingers closely upon the pulse beat of business in their own respective activity and community. By having regular contacts with responsible, knowledgeable, objective-minded persons scattered throughout the country, it is believed that valuable information can be had which will complement or supplement other valuable information obtained through statistics.

Here, then, are ten reasons "Why I Am Not Afraid." No one in his right mind would endeavor to forecast the future with any degree of accuracy. There are always too many unpredictable and too many imponderable factors. No one can tell what "Acts of God" may come along to upset the very best of estimates. No one can predict with any reasonable degree of accuracy as to what our opponents in the presently-conducted cold war will do or say which could have a profound bearing upon the future. Nevertheless, despite a frank recognition of these imponderables and unpredictables, there are some fields which can be assessed with dispassionate judgment. We would be unwise, indeed, if we were to put rose-colored glasses over our eyes and refuse to see those factors in our national economy which do not point to complete health. But with a recognition of the many basic factors of soundness and with alert ears, eyes, and minds to those factors which may bear an adverse color, there would seem to be no great reason for measuring the foreseeable future with other than sober, quiet confidence.

*An address by Mr. Williams before the Sales Executives' Club of New York, New York City, Sept. 22, 1953.

# The State of Trade and Industry

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

The trend of over-all industrial production continued to reflect a slight rise in the period ended on Wednesday of the past week. Compared with the like period one year ago, total output was moderately higher.

Employment in industry was high and steady with claims for unemployment insurance benefits lower and fewer than a year ago.

Factory employment in August showed the smallest gain over July since the end of World War II, the United States Department of Labor reported. For the first time since 1945, it stated, the number of workers in non-farm lines last month was no higher than in June.

Non-farm employment, officials noted, usually scores a healthy increase in the late summer as factories reopen after vacation close-downs, and consumer goods industries expand production to meet fall demands. But August payrolls, they added, failed to gain as much as expected, or reductions were greater than normal.

Nevertheless, the department declared, the nation's employment siutation continued "highly favorable.' Jobholders in non-farm lines totaled 49,400,000. This was 1,200,000 above August, 1952, and a new high for the month. In most non-manufacturing activities, employment was at record levels.

However, in the current week reports coming to hand state that manpower supplies are easing. Recent surveys by the United States Department of Labor showed the best balance between job opportunities and available workers in two years. It reclassified seven areas as having more plentiful labor supplies, and only two as tighter. As a result, 18 areas of the nation are now classified as having substantial labor surpluses; 85 as having surpluses; 76 as having a balanced supply, and three as having labor shortages.

As far as the steel industry is concerned the coming "correction" period expected by economists is already here, states "The Iron Age," national metalworking weekly this week. This is because steel is a bellwether industry, often used to evaluate the general business future, it adds.

Since orders of steel consumers are in anticipation of future needs, they already reflect the manufacturing outlook. Judging by orders on the books and expected to come, fourth quarter steel business will be only a shade below the third quarter, this trade authority notes.

Steelmaking operations in the third quarter averaged about 91.6% of rated capacity. During most of September a wildcat strike at the nation's fourth largest steel plant shaved the national rate by about 4%. This deferred to the fourth quarter some production which had been planned for the third quarter.

Several months ago "The Iron Age" estimated steel production this year would be close to 112 million tons of ingots. This prediction took into account an expected decline in the second half, when it was estimated operations would average about 91% of capacity. Considering production deferred by strike, orders on

*Continued on page 49*

# COMING EVENTS

In Investment Field

**Oct. 13-14, 1953 (Cleveland, Ohio)**
Cleveland Society of Security Analysts Great Lakes Regional Conference.

**Oct. 13-16 (Louisville, Ky.)**
Association of Stock Exchange Firms Board of Governors Meeting.

**Nov. 10, 1953 (New York City)**
Security Traders Association of New York Beefsteak Dinner at the Antlers.

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

**June 9-12, 1954 (Canada)**
Investment Dealers' Association of Canada Annual Convention at Jasper Park Lodge.

## Georges Lurcy

Georges Lurcy, a partner of the Stock Exchange firm of Halle & Stieglitz, died Sept. 30, at the age of 62 at Roosevelt Hospital, New York City, after a short illness.

Mr. Lurcy who was born in Paris, France, was a well-known international banker, an Officer of the Legion of Honor, and had been senior partner in his own banking firm in Paris from 1920 to 1933. He came to the United States in 1940 and specialized in the study of economics, graduating from the University of North Carolina in 1943 with an M.S. degree. From 1943 to 1944, Mr. Lurcy continued his studies of economics at Columbia University where he was a member of the honorary society of Beta Gamma Sigma.

# *Observations . . .*

By A. WILFRED MAY

## Introducing Keynes to the Consumer

A book-of-the-week, with an extraordinarily lucid style and ordered marshalling of colorful facts devoted to the doings of the consumer, will intrigue the investor and the businessman as well as the economic expert.

"Only as a consuming nation can we remain a producing one" is the keynote of **The Standards We Raise** (Harper & Brothers, New York, 164 pp., $2.50), by **Paul Mazur,** a senior partner in the investment banking firm of Lehman Brothers, long-time authority on department store finance, and author of a number of other important books.

A. Wilfred May

To this reviewer Mr. Mazur's contribution hinges on a varying of Lord Keynes's theme of the crucial impact on the trade cycle from the business community's use of its decisions whether to save or invest. But whereas Keynes's reasoning stemmed from the theory that unemployment and depression were caused by the withholding of large-scale savings from capital investment by business and the large holders of capital; Mr. Mazur contends that abstention from spending by the *consumer* is the key—having a multiple effect (at a ratio of over seven to one) on capital expenditures, and thence spread-eagling throughout the economy.

In incontrovertibly pointing out the absolute schism between purchasing power and consumption — that is, between purchasing power and actual purchases—our author further implements and refines Keynes. "When the conversion of purchasing power into purchases takes place, the process creates additional purchasing power. As a result, the economy is likely to run with the smoothness of a well-operating eight-cylinder engine. However, when purchasing power is not being converted into purchases at a rate equivalent to production, then the economy is headed for a period of hesitancy, recession, or even depression as a result of rising inventories and the increasing anxiety of businessmen," is our author's appealingly-stated thesis.

Mr. Mazur vividly and intriguingly spells out the power of America's industrial capacity and the sensational results in our astronomically high standard of living. But—this idol created by our production miracles has feet of clay. "Mass purchase of

*Continued on page 41*

# Our Grandchildren

By ROGER W. BABSON

Many articles have been written about the continuing rapid increase of U. S. population, which is now over 160,000,000. They all read in a bullish vein and are presented as a cause for great future prosperity. This week—however — I will present another side to this story — namely, **what the expected future increase may mean to your children and grandchildren.**

Roger W. Babson

The **first** reason is that there now are more births. The **second** reason is that there now are fewer deaths proportionately. Deaths among babies are much fewer while almost everyone is living longer, due to better food, shorter hours, saner habits, and improved medical care. Also the following statistics given me by the Editor of "Mass Transportation" are suggestive.

Since 1940, which was only 13 years ago, a new "public" has come into being. Fourteen million old customers have died. More than 17 million marriages have taken place. More than 30 million babies have been born. More than one-third of all present families in the U. S. have been formed. Of the more than 150 million people in the U. S. today, 63% do not remember World War I. Until this year, 52% did not remember a Republican Administration in the White House.

### Don't Be Fooled by Figures

All the above now results in one baby being born every eight seconds and someone dying every 21 seconds. In addition, one immigrant enters the U. S. every two minutes and one emigrant leaves every seventeen minutes. I have no figures on the probable increase in the number of families; but this will be very much less.

These facts would appear to require more schools, more roads, more houses, and even more telephones, automobiles, refrigerators, television sets, etc., etc. I hope this will be true; but not necessarily. Present schoolhouses could take care of the present population by being operated on two shifts. Our roads may now be overbuilt. The number of houses needed depends upon **families,** not on **persons.** In the house in which I was born at 58 Middle Street, Gloucester, Massachusetts, one of my ancestors had 21 children.

### Higher Taxes Possible Some Day

The population increase which comes from living longer presents a problem for our children. When parents or grandparents receive Old-Age Assistance, or Pensions, or even Social Security, the money does not come "from the blue sky." All such benefits must be paid for by the younger people in the form of taxes or a higher price for the goods they are to buy. Taxes should decline somewhat next year, but the decline will not be permanent.

Even the Welfare Funds which organized labor is now demanding will increase prices unless the workers increase their production accordingly. "Security" must always be paid for by someone. Otherwise, it is like depending upon aspirin to cure a disease. These Funds will not remedy the real trouble.

### Conservation and Character

To have this large increase in population with a high standard of living, we must conserve our natural resources. This means avoiding waste of everything, from oil to trees. Our woodlands and soils must especially be protected—yes, and even the fish of the oceans. It is utterly foolish to talk about "great future prosperity **due to increased population**" unless we train our children to be less wasteful.

Another thought. We have only to travel in Asia and Africa to know that population alone does not make prosperity. In fact, a large population may make for poverty. For our grandchildren to enjoy prosperity, much more attention must be devoted to spiritual training, the development of good habits, and the arousing within the souls of all people a desire to work and produce. Hence, the great importance of churches.



# Links in the Food Chains

By IRA U. COBLEIGH

*Author of "Winning in Wall Street"*

**Some topical notes about a popular defensive type equity —grocery chain shares.**

Food, shelter, and clothing in roughly that order, have been the basic economic priorities of mankind for thousands of years, and there's nothing on the horizon at the moment to suggest any change in Homo the Sap's Material "musts." You'll note the first is food; which has always made agriculture a major industry, and suggests to us that food chains, to be rapidly reviewed today, are almost as importantly placed in our scheme of things, since they provide, at retail, vital viands man cannot do without.

Ira U. Cobleigh

It also follows that our leading, and best managed, food chains, because of the necessities they sell, have tended to become among our most stable and durable business enterprises, with a rather impressive built-in defense against the vagaries of the business cycle.

Grocery chains are big business. Together, they do, today, 38% of all the retail food selling in the United States with total sales, I believe, running now at above a $13 billion annual rate. The most impressive factor in their growth (and gross) has been the steady blossoming of supermarkets. Primarily depression-designed grocery depots, to provide food to the masses at rock bottom prices, with no frills, no deliveries, no credit, and a minimum of personalized service, the supermarkets numbered a lowly 300 in 1932; but in the 21 years since, they have burgeoned to 17,000. To qualify as a respectable, card bearing supermarket, it should gross at least $250,000 annually. The average one sold $800,000 of victuals in 1952; and the virtuosos among them gross well above $3 million per annum. Think of these things the next time you sweep into a parking lot as big as a ball field; then place yourself behind a four wheeled double basket and deploy up and down between canyons of cookeries, and long files of frozen food freezers, winding up in the groove at the cashier's counter. Believe it or not, the supermarket is far more important than Superman!

The operating ratios of the big food chains may be of some interest. Their average inventory is turned over about 15 times a year. The average profit mark up currently runs around 18%, and operating income appears to run somewhere near 3% of gross, varying with management and territory served.

### Low Labor Cost

Another thing of note in food chains is the labor bite. Everyone knows that the one price in our economy (except perhaps the price of gold) that shows no tendency to weaken is the price of labor. Hence increasingly investors are seeking those companies where labor outlays are small in relation to total sales; and where, in consequence, increased labor costs won't dent net earnings too drastically. The chains we're discussing come off very well in this respect. Salaries and wages generally fall between 10% and 12% of gross (as against 50% for railroads, 55% for gold mining); and Safeway, for 1952, got this ratio down to below 7½%, a particularly impressive showing. Add to this the fact that grocery help, being usually rather unskilled, commands about 25 cents an hour less than is paid in general manufacturing.

Switching over from labor to merchandising, the end of all price controls in 1953 permitted much better profit ratios in a number of lines, especially meats; and the sustained high level of national incomes has made possible expanded sales of such luxury items (highly profitable) as frozen fish fillets, chow mein, and all sorts of meat pies. Some chains have gone vertical by making their own bread, pastries, etc., and by packing their own brands of canned goods.

The future of the chains is by no means dull or drab. Especially in the suburban areas, peripheral to our big cities, new supermarkets are blossoming in ratio to the myriad of new homes; and the addition of 9,500 more mouths to feed in our country every day in the year, would seem to suggest that the growth of food chains is almost a statistical certainty.

### A. & P. and Safeway Stores

So much for background. Let's look at two or three specific companies. Next to *Atlantic and Pacific,* the big daddy of them all (annual sales above $3½ billion), comes *Safeway Stores, Inc.,* which has parlayed a declining number of stores into a substantial increase in business volume. For 1943, Safeway net sales were $588 million; in 1952 they had almost trebled to $1,639 million.

Right now, after two decades of weeding out little ones, and developing and adding big ones, Safeway operates 2,050 stores all self-service (about 140 of them in Canada) and it has just arranged with the construction firm of Webb and Knapp for the building of 100 new markets, the last word in grandeur, design, and efficiency.

Safeway should come up with particularly fine earnings for 1953, perhaps even doubling the $2.01 earned in 1951 on each of the 2,874,351 common shares now extant. This issue is listed on NYSE, pays 60 cents quarterly, yielding over 6½% on current quotations. Safeway common has paid dividends for 25 years in a row, and there was a 3-for-1 split in 1945. If your preference runs to preferreds, there's a very good straight $4 pfd. selling around 85, and a convertible $4.50 pfd. which, at your pleasure, you may relinquish, receiving in lieu, three shares of common. Quite a safe way to become a Safeway shareholder! At all events, Safeway is a pretty durable performer at a pretty good yield.

### First Nat'l Stores, Inc.

A more sectional entry, and one of the most consistent performers in the industry is First National Stores, Inc., which operates 847 outlets in New England, about 600 of them self service. Because of the rather compact territory served, all units can be supplied from five central distributing plants. First National is an excellent example of the vertical trends mentioned above, since it operates its own bakeries and bottling plants, and sells some 170 items under it own "FINAST" label.

First National management is highly esteemed, and earning power here displays probably the fewest peaks and valleys of any major enterprise in the industry. In the decade from 1943/52 net sales went from $164 million to $424 million and net which was $2.24 per share in 1943 was $6.74 last year.

First National has incorporated into its single security (1,637,138 shares of common) a lot of the qualities you might expect to find in a bond or preferred. It has paid cash dividends without a miss since 1914; and I believe for 16 of these years in succession it paid $1.25. Split 2-for-1 in 1951, the shares now pay $2.00—below 50% of net; thus continuing a long tradition of plowing back a good slice of earnings into the property. It is easy to see why FST selling at 49 is one of the top quality equities among food chains.

**Food Fair Stores, Inc.**

One of the most dramatic growth situations in the grocery trade has been Food Fair Stores Incorporated. Here the entire emphasis has been on big (11 to 20 thousand square feet) self-service supermarkets of which the company now operates 165. Net sales have literally rocketed from $42 million in 1943 to a rate of over $300 million for this year. Sales per supermarket are really king-size, averaging over $1,900,000 a year. This, mind you, is an average for the whole chain—not just a single unit performance.

One-third of the outlets are owned, the rest on non-escalator type leases.

The rapid rise of Food Fair Stores has evoked extensive financing so that today's capitalization consists of $25 million in debt, 75,185 shares of $4.20 preferred selling around 95 and 2,377,907 common shares quoted today on NYSE at 26⅛. The indicated cash dividend is 80 cents a year; but there was a 5% stock dividend declared on Aug. 27 of this year. A per share net figure of around $2 seems a reasonable possibility for 1953.

Food Fair, over a 15-year stretch, has racked up fantastic market gains for its original and non-selling shareholders, and forward motion here gives no indication of stopping at today's sales line of scrimmage. Food Fair has been much better than a fair equity.

**Others in Industry**

We've only skimmed over the field today, selecting three outfits which display considerable investment merit — Safeway for yield, First National for stability and Food Fair for growth. But there are a lot of other good ones —Kroger, Grand Union, National Tea, Penn Fruit, American Stores, and a fast moving southern entry, Winn and Lovett. If your search is for defensive securities, you certainly ought to look this group over; and today's buyer here by no means shuts the door on possibilities of higher dividends and higher market quotations. Chains may become expanding links in your portfolio.

## NYSE to Consider New Commission Rates

**G. Keith Funston, President of New York Stock Exchange, gives members notice that Board of Governors will meet Oct. 15 to consider a new schedule, which, if adopted, will require amendment to Exchange's Constitution.**

According to a notice sent to members and allied members of the New York Stock Exchange on Sept. 25, the Board of Governors of the Exchange has set down for consideration at the next policy meeting on Thursday, Oct. 15, whether to adopt a proposed new schedule of commission rates which have been attached to the notice. An amendment to the Exchange's constitution would be necessary to make the schedule effective. If the Board approves the new rates as an amendment to the Consitution, it woud be submitted promptly to the membership for balloting.

Present commission rates, were established in November, 1947, since which time there has been no change.

Under the proposed schedule, commissions would be computed in much the same manner as they are today, but would produce an estimated over-all increase of approximately 18% in commission revenue. Commissions would continue to be based on the amount of money involved in a transaction of 100 shares or less. There would be no volume discount.

A special feature of the new schedule would provide that when a purchase and sale of the same security for one account are made on the Exchange within 30 days, the commission on the liquidating transaction would be 50% of the regular commission plus $2.50 for a round lot or $1.50 for an odd lot.

Clearance and floor brokerage rates would be revised to provide an over-all increase from present levels of about 7½%. There would be no increase in charges for the clearing of members' floor trades.

The proposed schedule for each 100 shares or odd lot is:

| | |
|---|---|
| 1% | on first $2,000 of money involved plus |
| ½% | on next $3,000 of money invested plus |
| 1/10% | on money involved above $5,000 Plus $5.00 for a round lot, or Plus $3.00 for an odd lot. |

The proposed schedule may also be described as follows:

| Amount Money Involved | Commission |
|---|---|
| Under $100 | As mutually agreed |
| $ 100 to $1,999 | 1% + $ 5.00 |
| $2,000 to $4,999 | ½% + $15.00 |
| $5,000 and above | 1/10% + $35.00 |
| Odd Lot — $2 Less | |

The minimum commission on any single transaction would not exceed $50, with a maximum of $1.00 per share. The present $6.00 minimum per transaction, however, would be retained.

## Wm. L. Burton Adds H. S. Sealy to Staff

William L. Burton & Co., 25 Broad Street, New York City, members of the New York Stock Exchange, announced that Hampton S. Sealy has become associated with the firm. He was formerly with Barmonde, Gilliland & Co. and Newburger, Loeb & Co.

## Three With Baker, Simonds

(Special to The Financial Chronicle)

DETROIT, Mich. — Robert J. Cook, Eugene O. Hess, and Charles J. Kanney have joined the staff of Baker, Simonds & Co., Buhl Building, members of the Detroit Stock Exchange.

# Dealer-Broker Investment Recommendations & Literature

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

**Automobile Industry**—Leaflet—Joseph Faroll & Co., 29 Broadway, New York 6, N. Y.

**Balanced Retirement Program**—Booklet for employers describing a pre-packaged, balanced retirement program combining dollar annuities with equity securities—Kidder, Peabody & Co., 10 East 45th Street, New York 17, N. Y., Dept. CF.

**Canadian Business**—Analysis of outlook—Ross, Knowles & Co., 330 Bay Street, Toronto 1, Ont., Canada.

**The Exchange**—Pocket magazine issued once a month by the New York Stock Exchange—12 issues, $1.00—Dept. B., The Exchange Magazine, 20 Broad Street, New York 5, N. Y.

**Higher Yield Equities** — Tabulation — Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

**How to Be a Wall Street Financier on $10 a Week**—Donald I. Rogers—In the Oct. 16 issue of "Collier's" (on sale Oct. 2)—15 cents per copy.

**Investment Opportunities in Japan**—Circular—Yamaichi Securities Co., Ltd., 111 Broadway, New York 7, N. Y.

**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.

* * *

**American Optical Co.**—Memorandum—A. C. Allyn & Co., 44 Wall Street, New York 5, N. Y. Also available is a memorandum on **New England Electric System.**

**American Phenolic Corporation**—Analysis—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

**American Viscose Corporation**—Analysis—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y. Also available are a list of **Common Stocks for Appreciation** and **Common Stocks for Investment.**

**Carpenter Paper Co.**—Memorandum—Central Republic Co., 209 South La Salle Street, Chicago 4, Ill.

**Central Vermont Public Service Co.**—Booklet—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

**Combustion Engineering**—Data in current bulletin—Abraham & Co., 120 Broadway, New York 5, N. Y. Also in the same bulletin are data on **Continental Oil, Hercules Powder, P. Lorillard Company, Revere Copper & Brass.**

**Commonwealth Oil Company**—Progress report—Gordon Graves & Co., 30 Broad Street, New York 4, N. Y.

**Diamond Alkali**—Memorandum—Auchincloss, Parker & Redpath, 52 Wall Street, New York 5, N. Y.

**Emerson Radio & Phonograph Corporation**—Analysis—Stanley Heller & Co., 30 Pine Street, New York 5, N. Y.

**Foremost Dairies**—Analysis—First California Company, Incorporated, 300 Montgomery Street, San Francisco 4, Calif. Also available is a progress report on **American-Marietta,** and a report on **Southern California Water Company.** In the current issue of "Views" are brief analyses of **Arizona Public Service Company, Southwestern Public Service Company, Bank of America, Franklin National Bank, Permanent Cement Company, Phillips Petroleum Company, Tennessee Gas Transmission Company, Kaiser Steel Corporation** and **White Eagle Oil Company.**

**Fuji Iron & Steel**—Analysis—Nikko Securities Co., Ltd., 4, 1-chome, Marunouchi, Chiyoda-ku, Tokyo, Japan. Also available is an analysis of **Nippon Express.**

**Interprovincial Pipe Line Co.**—Memorandum—G. E. Leslie & Co., Royal Bank Building, Montreal, Que., Canada.

**Louisiana Land and Exploration Company**—Analysis—Bruns, Nordeman & Co., 60 Beaver Street, New York 4, N. Y.

**National Homes Corporation**—Analysis—Aetna Securities Corporation, 111 Broadway, New York 6, N. Y.

**National Steel Corporation**—Bulletin—T. L. Watson & Co., 50 Broadway, New York 4, N. Y.

**Nekoosa-Edwards Paper Company**—Analysis in current issue of "Business & Financial Digest"—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis. Also in the same issue is an analysis of **Public Service Company of New Hampshire.**

**Resort Airlines**—Bulletin—De Witt Conklin Organization, 100 Broadway, New York 5, N. Y.

**Riverside Cement Company**—Analysis—Lerner & Co., 10 Post Office Square, Boston 9, Mass.

**Seaboard Oil of Delaware** — Study — Bache & Co., 36 Wall Street, New York 5, N. Y.

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

**Visking Corporation**—Analysis—Cruttenden & Co., 209 South La Salle Street, Chicago 4, Ill.

## Successful Bidders for Housing Bonds

**Frank Morse (second from left), of Lehman Brothers, announcing to Investment Dealers that their group was the successful bidder for over $100,000,000 of New York Federal Housing Authority bonds. Others in picture (left to right): Orlando S. Brewer of Phelps, Fenn & Co., George Levind of Blyth & Co., Inc. and John Mitchell of the law firm of Caldwell, Marshall, Trimble & Mitchell.**



# THE MARKET... AND YOU

**By WALLACE STREETE**

The stock market extended its recovery on rotating leadership this past week. It was a good performance of steadily inching away from the mid-September low levels, and for the industrial averages, at least, it was a smart enough rise to approach an area considered to offer some "sales resistance."

In climbing to around 265 in the Dow-Jones industrial index, the market encountered the first set of several so-called supply areas. (These are reportedly 265-267—270-272 and 275-280.) Coming up from a 254.36 low set on Sept. 14, the industrial section in the past week has had such distinguished leadership as the electrical equipments (mostly General Electric), the chemicals (Allied and Du-Pont), the motors (Chrysler a strong spot) and lately the aircrafts and the oils.

* * *

**Rails Awakening**

Then too, there's been joy in another bullish corner of the Street, for the railroad issues have again asserted themselves as potential market leaders — in an uptrend this time. Monday's runup was led generally by the rail issues. Measured by the Dow-Jones index this group at around 95 is now more than 5 points above the mid-September lows, and would seem to have no important barriers just ahead. It is believed that the next important resistance level they would encounter on the upside is in the 99-102 area.

* * *

The market's upswing ran out on Wednesday after six days of advance for the industrials and rails, and 10 days of a steady climb for the utilities. A good number of the leaders backed away a bit from the best prices of the past three weeks but several specialties came to the fore.

Bullard Co. was a strong issue, spurting more than two points yesterday on news of a $1 cash dividend and a 10% stock dividend. It had partially anticipated this move, in a rise which now measures almost six points in little over a week.

United Dye & Chemical made a wide gain for a low-priced issue. It was in demand reportedly on reports the preferred (around 63½) was being called. Another wide stepper Wednesday was Heyden Chemical, also low-priced, it ran up almost three points at one time in heavy volume, on news of a new antibiotic.

Before drifting lower yesterday, the industrials and rails, as measured by the Standard & Poor's daily indexes, recovered 26% and 18%, respectively, of the ground lost in the decline from last summer's highs.

* * *

**Aircrafts a Prop**

The burst of activity in the aircrafts, which carried over into Monday and Tuesday (and which on Tuesday, as on Friday provided one of the mainstays of the advance) stemmed from reports that Washington was readying some new important contracts. Apparently what was awaited was the decision announced late Monday that the Air Force was allowing Boeing to establish a second manufacturing source for its B-52 jet bomber. Boeing and North American Aviation, which is also involved in the program, stepped right out in heavy demand as a result.

* * *

**Groups Ahead of the Market**

The aircrafts, along with

such industries as tobacco, baking and public utilities, have fared far better of late than the general market. Some of the air issues (United Aircraft) have touched new highs or have moved close to their best levels for 1953.

* * *

Bethlehem came to the fore in the steel group, some demand being created by the suggestion of several advisory services that it was a good switch in that section. One suggested switch: from Jones & Laughlin or Sharon Steel into Bethlehem.

* * *

With the Washington spotlight turned on to the meat packers, shares of companies in this trade will probably get a new going over. The average price of meat packing shares declined from 1938 into 1942; there followed seven profitable years with the group of shares up into 1946; since then there have been seven unprofitable years, with the shares declining to present low levels.

* * *

In the textile grouping American Woolen shares turned strong and active this past week. Both the common and preferred chalked up good gains while some other elements in the grouping (particularly the rayon producers) were having a bad time of it. Woolen made the big ten in volume several times in the period.

* * *

**Foods' Good Performance**

Among selected groups which have vigorously resisted selling pressure in the recent decline, and which have found new favor in the upswing, is the food stocks. General Foods, one of the leaders in the group, has weathered several profit-taking sessions to keep its uptrend alive. Pet Milk managed a new high.

* * *

**Groups Vulnerable to Tax Selling**

In view of the sharp decline in share prices this year liquidation of this type could well be the heaviest in some years, according to some traders. There's quite a list of common stocks down 20% or more from their best 1953 levels. You'll find them in the air transportation field, in chemicals, coal, farm equipments, metal, petroleum, railroad, rail equipment, rubber, steel, sugar and textile catagories.

* * *

This tax selling gives an an investor an opportunity to offset profits he takes out of other market operations.

*[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]*

# From Washington Ahead of the News

By CARLISLE BARGERON

It is difficult to tell whether the stepped-up concern within Administration circles over Russia's supposed destructive capabilities is based upon any real fear of that nation or a feeling that this government's military cutback may have caused too much economic alarm in this country. At any rate, the indications are that the Administration, instead of proceeding with the cutback next year, may reverse itself and go in for even larger military spending.

Carlisle Bargeron

Neither Mr. Wilson nor Mr. Humphrey, so far as I know, has changed his views about the necessity of the budget being put in order. But their attitude towards military spending seems to have undergone, or to be undergoing, a radical change. They have become tremendously alarmed over Russia's having the H-bomb, if she doesn't have it now, she will have it by 1956. It seems that although we are way ahead of Russia industrially at this time, Russia is fast catching up with us. This on the part of a country that next to China is the most backward in the world.

It seems fantastic but the important thing to the American taxpayers, inasmuch as we are not living in world realities but in fancy and imagination, is that an Administration that seemed to have been heading away from the world tensions on which preceding administrations had subsisted, is reversing its field and apparently is going to embrace the same fears about Russia which the Truman Administration so assiduously cultivated. This means higher taxes, not lower ones, although the higher levies will come in a different form.

Of course, there has been a steady outpouring of propaganda about Russia from the Pentagon ever since the military spending was cut. An effective slogan was coined to the effect that the economizers put dollars above security. It is surprising how the press has generally adopted this theme and how little press support the economizers have had. The Administration, instead of citing the economy as an accomplishment, has been forced to defend it with such unconvincing statements to the effect that although we have a less costly military we have a more efficient one.

It seems strange that in all the agitation no one has raised the question of whether the Military can assure this country of safety from an atomic or hydrogen bomb attack regardless of how much money it is given. The answer is that it can't. Former Chief of the Air Force, General Hoyt Vandenberg wrote in the "Saturday Evening Post" a couple of years ago that regardless of what sort of protection we had the Russians could get bombers through. It is interesting to note, incidentally, that practically all of the recent propaganda has been around Russia's ability to deliver a devastating air attack on this country. The earlier propaganda about her first sweeping over Western Europe which has been the justification for our pouring out billions of dollars, has been soft-toned. It is as if we were wrong in our apprehensions over that contingency, but now we really are in peril because Russia will just drop the bombs directly over us, to such an extent, indeed, that we may be so suffocated that we won't be able to retaliate.

From my digging around in the Administration's ivory tower, trying to separate the realities from the fevered thinking, I don't believe men like Messrs. Wilson and Humphrey share the fears which they seem to profess. I think they are more concerned over the economic jitters which their economizing caused. They didn't have the very loyal support of the military in the allocation of the cutbacks. In the Air Force the reductions and cancellations of orders were seemingly placed meticulously so that the thud of reduced business activity would be the most pronounced.

It stood to reason that so much spending could not be stopped without its having a temporary effect upon the economy, without some business readjustments being necessary. But if the stock market is any barometer, the uneasiness is being eased with little if any upset in employment.

# Government Will Stop Competing With Business

By HON. SINCLAIR WEEKS*
Secretary of Commerce

**Asserting that every move by bloated government to take over services better performed by private enterprise takes something away from the people, Secretary Weeks discloses new Administration is carefully scrutinizing all activities conducted by Federal Government which compete with private industry. Promises, wherever feasible and as quickly as possible, to take Uncle Sam out of competition with private business. Terms it disturbing for umpire to judge himself as a player.**

Let us consider the strength of private competitive enterprise and its possibilities for the advancement of the well-being of Americans.

Sinclair Weeks

One of the most important issues of our generation is this: Big Government vs. Free People. The tragedy of modern Europe is that in nation after nation Big Government has won—and the people are worse off than before.

Wherever people have lost control of their government, the government has taken more and more control of their lives. Standards of living have gone down. Human rights have been crushed. When the hoodwinked people of Nazi German and Iron Curtain countries awoke to their betrayal, it was too late.

That must *never* happen here. Last November the American public decided on more freedom for people and less bigness in government — less burdens from government—less controls by government— less intrusion of government into the field of private business.

Since then the Administration has been carrying out that freedom mandate. We are endeavoring to give private competitive enterprise more opportunities and more incentives to make the lot of everyone better.

For this uniquely American competitive enterprise system is the greatest instrument designed by man to advance his own material well-being. It is giving Americans the highest standard of living on earth and in history, with television antennas sprouting from nearly every roof and 55 million automobiles on our highways.

The success of the American way of life is based on the fact that every American enjoys to a greater extent than any other person on earth a *combination* of powerful *human rights.*

Among these American rights are: freedom of religion, free elections, free speech, free press and free enterprise.

Free, private enterprise is an economic system of the people, *by* the people, *for* the people. It is the instrument invented, developed and used by the people themselves to reward themselves for their own individual effort and to give themselves the best in goods and services which only competition among producers can supply.

*An address by Secretary Weeks before Nat'l Industrial Conference Board, New York City, Sept. 23, 1953.

### Government Belongs to People

In America the government belongs to the people. So does private enterprise. Both should be used for the people. The Federal government can perform some services better than private enterprise—postal service, for example. State and local government can run schools better than the Federal Government. Private enterprise can do better than either to keep the average family well-fed, well-clothed, well-housed, and provided with those extras which give us here the really abundant life.

Every move by bloated, greedy government which takes over services better performed by private enterprise takes something away from the people. The tide in that direction had been running strong for two decades. It started to turn on Jan. 20.

The Administration is studying every one of the diversified business activities conducted by the Federal Government which presently competes with the owners, managers and workers of private industry.

As for *future* business activities: we shall judge each proposal as to its merits in serving the public. We do not want the Federal Government any more to embark on business operations which should be handled by private enterprise.

In the case of major projects—such as multipurpose dams—the Administration will plan those that are economically justified and feasible.

In discussing the recent power policy statement by the Secretary of the Interior the President declared:

"This policy is in accord with the principle that the states and local communities, private citizens and the Federal Government itself should cooperate in an effort actively to encourage the development of the natural resources of the country. . . . It is my hope and my considered belief that, translated into action, this policy will serve the best interests of all the people of the United States."

As for *current* government-operated business activities: I should expect that those which are justified and feasible and beyond the present means of states or private enterprise to handle, to continue under government operation. But, where possible, and as swiftly as possible, we want to take Uncle Sam out of competition with private business—whose owners and workers can render desirable economic services faster, cheaper and better than ponderous bureaucratic government.

For example: As Secretary of Commerce and, of course, with the approval of the President, I sold the Federal Barge Line for nearly 12 million dollars after it had been losing money for the public in 12 of the last 14 years. By removing the Federal Government from river transportation we think we have benefited taxpayers, shippers, barge workers and the public.

If—as some critics now whine—that's a give-away program, then I think the public will say, "Give us a lot more of such programs."

### Public Benefits When Government Stops Grabbing Jobs

Let us explore further why and how the public benefits when the Federal Government stops grabbing the jobs which competitive enterprise can do better.

Our Federal Government was not set up to do business. It was established for certain most important but limited purposes by those who wrote the Constitution.

What these wise Founding Fathers did was not by accident. When the Constitution was adopted, the American people had enjoyed more than 150 years of a kind of liberty that no other people on earth until that time had experienced.

The Constitution was written to preserve these unique liberties for the people, including freedom from central government interference in the ordinary business affairs of their lives.

It is interesting that the writers of the Constitution created that document as a result of their experience with liberty for more than 150 years. It is even more interesting that this Constitution has functioned to maintain a unique liberty for more than 160 years after its adoption under rapidly changing circumstances.

This 300-year experiment with private business as the chief economic servant of the public has given the American people greater opportunity, greater well-being and better prospects for future prosperity than any people elsewhere in the world.

That record success story is one reason why we hope to take the Federal Government out of many of the business activities into which it has slipped in recent years. The government was never intended to be in business. Its overall record in business is not good. It should remain in business only where it can perform necessary functions which private enterprise cannot or will not undertake.

This Administration has abolished the Reconstruction Finance Corporation. I do not think that its death is mourned.

As I said earlier, we have sold the Inland Waterways Corporation. As far as I can see, there is no more reason for the government to run a barge line today than there is for it to run a trucking line.

In the Commerce Department we also are examining the question as to whether or not many of the functions now performed by the Federal Government in merchant shipping and civil aviation can be returned to private enterprise or to municipalities. We are hoping for an arrangement whereby financing of ship construction may be worked out between builders and bankers. Certain airport control towers have been returned to city governments where the criteria indicated insufficient national interest was involved.

The Administration and the Congress have decided to sell the government-owned plants for making synthetic rubber. There was a national defense reason in the war to construct them. There is no reason for Uncle Sam to own and operate them now.

The Administration also felt that there was no more reason for the Federal Government to take oil lands covered with water away from the States than there was to take any other land that belonged to the States.

We believe every one of these acts benefits the public.

This Administration intends to limit the Federal government to its essential functions and to increase its efficiency in the performance of these functions.

In spite of the fact that the welfare clause of the Constitution has been stretched to distortion in recent years, this country still is less directed and less circumscribed by the limiting factors of central government than any other.

It is our purpose to *keep* it so. It is our aim to reverse the 20-year trend towards centralization. It is our determination to give a break to the owners and workers of private enterprise.

Our reasons for this change are quite simple. The Federal government is one of several servants of the public. State and local governments are others. Business, in a sense, is still another.

Business is authorized by charter, license, and by other laws and regulations, to serve the public. Under our statutes and under American conditions, business serves the American people in the production and distribution of goods and services much better than can any government, past or present.

Of course, by this statement I do not mean that every segment of business as a servant of the public has always been perfect. I mean that despite human shortcomings it has performed its functions infinitely better than any central government can. And more than that, a central government that tries to do everything cannot do its primary functions well.

The Congress of the United States was set up to make the rules under which the people would live and serve each other. The Executive branch was established to administer these rules. The two together umpire the baseball game of life as Americans play it.

### Disturbing for Umpire to Turn Player

But it disturbs the game and players considerably if every once in a while the umpire grabs the bat and starts hitting the ball. And it disturbs the umpire's judgment of the rules if he tries to judge himself as a player. It just *can't* be done.

Let me give you a concrete example. A privately operated public service company, which, although by charter, by law and by regulation is in the public service, is held accountable for its acts by a government commission. That commisison is the umpire.

However, when the government itself organizes a company to serve the public in any field there is no umpire on hand to hold it accountable. Once in a while there may be a Congressional investigation. But there is little machinery for continuous scrutiny of the manifold actions of this government business enterprise by anyone but government officials themselves.

The gentlemen running the government-operated company are subject to the same human frailties that beset managers of private enterprises. They are frequently subject to an empire-building complex and too often are willing to take things easy and coast.

The necessity for profits and the pressure of competition continually drive the manager of a private enterprise. In private business you make good or you don't stay in business. But this is not so with those in government-owned business enterprises, who know that they have the taxpayer to lean on if deficit loom ahead.

So the evidence piles up to prove that usually the public is better served when business enterprises are owned and operated by the people themselves and not by the Federal or any other Government.

But, as is always the case, when one suggests keeping Octopus Government out of competition with private industry, the worshippers of Big Government weep and wail and gnash their teeth.

These critics of decentralization have no confidence in the ability of the American people to handle their own affairs. They have so little faith in the American free enterprise system that they think the public interest can be served only by *more* Federal ownership, *more* Federal development, *more* Federal operation, *more* Federal bureaucracy, *more* Federal debts and taxes and *more* Federal con-

*Continued on page 46*

# Federal Budget and Corporate Profits in a Business Decline

By WILLIAM R. BIGGS
Vice-President, The Bank of New York

**Pointing out corporate profits in business recession are likely to be less jolted than the Federal Budget, Mr. Biggs reveals heavy dependence of Federal revenue on corporate and individual income taxes, receipts from which would be substantially reduced in event of business depression. Sees removal of excess profits tax cushioning corporate earnings in depression.**

There has been much discussion in recent months of the likelihood of a business decline in the United States. However, there has been little effort to appraise some of the more specific effects. In the last 15 years the Federal budget has become very largely dependent on personal and corporate income taxes for revenue. The effects of a business decline on the Federal budget and corporate profits are, therefore, well worth exploring.

William R. Biggs

It is proposed here to relate the experience of the most recent business declines—those of 1937-1938 and 1948-1949—to the estimated 1953 average level of activity. The same percentage declines in production, prices, personal incomes, personal taxes and pre-tax profits as occurred in those two periods have been arbitrarily applied to the 1953 estimates. Then, by adjusting for the present tax structure it is possible to obtain some idea of what will happen to the Federal budget and to corporate profits after taxes under two varying degrees of recession.

It should be emphasized that no prediction is intended — we are merely applying the experience of previous declines. We have no better way of knowing than anyone else whether declines in personal income, personal taxes and corporate income before taxes will be like those in previous periods, in the event of similar declines in production and prices. Neither do we have any way of knowing whether any business decline will take place, although the extent and duration of the boom make this a not unreasonable expectation. Finally, the timing of any decline is certainly unpredictable.

Our initial step is to establish reasoned estimates of several basic indices for the whole of 1953. In estimating 1953 production and prices, we have assumed some reduction in each during the last six months of 1953. For instance, production, which has averaged about 240 for the first half of the year, is expected to be lower in the last half, and thus to average about 235 in the Federal Reserve Board Index for the year. The decline, in part, reflects the summer dip in the index, which is not fully adjusted to the seasonal impact of vacations in July and August. Some fall for the balance of the year has also been assumed in estimating the Wholesale Commodity Price Index at 109, compared with the current level of just over 110. Our estimates of personal income and personal taxes and corporate profits and taxes are based on the above estimates of production and prices.

### The 1949-Type Decline

Using our 1953 estimates as a base, a slow-down of the 1949 type has been taken to mean a decline of 8.5% in industrial production, of about 5% in wholesale commodity prices, and 1.7% in personal incomes. These are the same percentage declines as in 1949 compared to 1948.

Personal tax rates were the same in the years 1948 and 1949. However, personal Federal tax payments declined nearly 15% in 1949 from 1948, although personal income decreased only nominally. We have assumed the same 15% decline from estimated 1953 receipts before adjusting for the change in personal tax rates due on January 1.

Corporate tax rates were also the same in 1949 as in 1948. But tax liability dropped sharply with profits. Corporate tax rates, of course, are higher in 1953 than in the earlier period. The Excess Profits Tax is now due to terminate on Dec. 31, 1953. It is the elimination of Excess Profits Tax receipts which reduces the corporate profits tax accrued, from 54% of estimated pre-tax corporate profits in 1953, to an estimated 50% in the assumed decline. This reduction in rate also greatly cushions the decrease in after-tax profits. As pointed out later, a decline in business, and hence in earnings, will eliminate Excess Profits Tax receipts as surely as legal termination.

In both the 1949-type and in the 1938-type recessions we have estimated an average Federal corporate profits tax rate of about 50%. This roughly assumes the present 52% rate on large corporations and 30% on small ones, assumes loss carry-backs, and makes some allowance for the lower average rate on extractive industries.

With these considerations in mind, let us examine Table I, below, projecting a 1949-type decline. To be noted is the fact that corporate profits after taxes would show a decline of only 13%, compared with 21% actual in 1949.

### The 1938-Type Decline

A 1938-type recession would represent a decrease from the 1953 estimate of 21% in industrial production and 9% in wholesale commodity prices, and personal incomes. These declines are the same as those of 1938.

Personal tax rates were the same in 1937 and 1938, and hence the reduction in the item of "personal Federal income tax paid" arises solely from the leverage effect on taxes of the rather substantial decline in personal income. Again we have assumed the same percentage decline from 1953 in personal income tax receipts as in 1938.

There was an increase in corporate profits tax rates from 1937 to 1938. This increase, plus the absence of loss carry-backs provisions in the 1938 tax laws, accounts for the fact that corporate earnings after taxes showed a larger decrease in 1938 from 1937 than corporate earnings before taxes.

It will be observed from Table II below that taxes in a 1938-type decline have the same cushioning effect on net corporate profits, though not as much so as in the 1949-type decline.

**TABLE I**
**Projection of a 1949-Type Decline**
(Dollar figures in billions)

| Calendar Years | Estim. 1953 | Estim. 1949-Type Decline | Estim. Decline from 1953 | Actual Decline in 1949 from 1948 |
|---|---|---|---|---|
| Industrial Production Index (1935-1939 = 100) | 235 | 215 | 8.5% | 8.5% |
| Wholesale Commodity Price Index (1947-1949 = 100) | 109 | 103-4 | 5.0 | 5.0 |
| Personal Income (before tax) | $285.0 | $280.0 | 1.7 | 1.7 |
| Personal Income Tax (Federal) | 33.0 | 28.0 | 15.0 | 15.0 |
| Corporate Profits (before tax) | 42.5 | 34.0 | 20.0 | 20.0 |
| Corporate Profits Taxes (Federal) | 23.0 | 17.0 | --- | --- |
| Corporate Profits (after Federal Profits Taxes) | 19.5 | 17.0 | 13.0 | 21.0 |

**TABLE II**
**Projection of 1938-Type Decline**
(Dollar figures in billions)

| Calendar Years | Estim. 1953 | Estim. 1938-Type Decline | Estim. Decline from 1953 | Actual Decline in 1938 from 1937 |
|---|---|---|---|---|
| Industrial Production Index (1935-1939 = 100) | 235 | 185 | 21.0% | 21.0% |
| Wholesale Commodity Price Index (1947-1949 = 100) | 109 | 99 | 9.0 | 9.0 |
| Personal Income (before tax) | $285.0 | $263.0 | 7.7 | 7.7 |
| Personal Income Tax (Federal) | 33.0 | 22.0 | 33.0 | 33.0 |
| Corporate Profits (before tax) | 42.5 | 22.5 | 47.0 | 47.0 |
| Corporate Profits Taxes (Federal) | 23.0 | 11.2 | --- | --- |
| Corporate Profits (after Federal Profits Taxes) | 19.5 | 11.3 | 42.0 | 51.0 |

### The Federal Budget

The current official Federal budget for the fiscal year ending June 30, 1954, has been used as a basis for our calculations. Included in this budget are revenues from the Excess Profits Tax to Dec. 31, 1953. Also it is assumed that the scheduled personal income tax rate cut of 10% will become effective on Jan. 1, 1954. To obtain our estimates of receipts under the two assumed declines we have subtracted from estimated 1954 receipts the reductions in Corporate Profits Tax and Individual Income Tax receipts as derived from the first two tables. We have made further deductions to cover estimated declines in other receipts. There follows a deduction to place the 10% personal income tax reduction on a full year's basis, since the June 30, 1954 budget includes the higher rates for the period from June 30, 1953 to Jan. 1, 1954.

**TABLE III**
**Adjustment of Budget Receipts to 1949-Type and 1938-Type Declines**
(In billions)

| | 1949-Type | 1938-Type |
|---|---|---|
| *Official Estim. of Receipts for fiscal yr. June 30, '54 | $68.5 | $68.5 |
| Deduct— | | |
| Decline in Corporate Tax Receipts | $6.0 | $11.8 |
| Decline in Individual Income Tax Receipts | 5.0 | 11.0 |
| Decline in Other Receipts | 1.0 | 2.0 |
| To adjust for full fiscal year 10% reduction in Individual Income Tax and Miscellaneous | 2.0 | 1.5 |
| Estimated Total Decline in Revenues | $14.0 | $26.3 |
| Revised Receipts | 54.5 | 42.2 |
| Loss of Mills Plan windfall fiscal yrs. after 6-30-55 | 1.7 | 1.1 |

*This estimate is adjusted to assume end of Excess Profits Tax as of Dec. 31, 1953, and Personal Income Tax reduction of 10% as of Jan. 1, 1954 (½ year).

Nearly all of the decline in revenue will be reflected in the fiscal year ending on the June 30th after the preceding calendar year. This is because personal taxes are now on a pay-as-you-go basis and because most corporations have fiscal years ending December 31st. Such corporations, because of the Mills plan to speed up corporate tax payments, will have to pay their total taxes on 1954 income by June 15, 1955.

Incidentally, this speed-up of payments of corporate taxes has resulted in an annual windfall to the Treasury averaging over $2 billion in each fiscal year after 1950. This windfall will be lost in fiscal years ending after June 30, 1955. It arises from the fact that in the five-year period 50% of corporate income tax payments will have been pushed into an earlier fiscal year at the rate of 10% each year.

On the expenditures side of the budget we have made an arbitrary reduction of about $2 billion from the 1954 fiscal year official estimate, on the assumption that this will represent the net savings arising from the end of the Korean war, after allowing for increased Korean rehabilitation costs.* Otherwise expenditures have been left unchanged from the official estimate on the following reasoning:

(a) The Administration has announced that the June 30, 1954, budget, as prepared, cuts defense and foreign aid expenses as much as they can be cut consistent with the safety of the country, and that a calculated risk is already being taken. Only a major change in the

*Continued on page 40*

*Treasury Secretary Humphrey recently estimated 1954 budget year expenditures of $72.1 billion instead of $74.1 billion.

# Investing for the Professional Man

By EDMUND BROWN, JR.*

Manager, Investment Planning Dept., Penington, Colket & Co., Members, New York Stock Exchange

**Investment analyst, in outlining plan for building up an investment estate for professional men, lists and discusses as factors to be considered: (1) requirement of income; (2) risks; (3) price fluctuations in stock market; (4) setting up of liquid reserves; (5) diversification, and lastly (6) the time element required for desired results.**

Today we are concerned with the investment problem of the professional man. And this means, as I see it, the problem of building up an investment estate or portfolio, consistently and without undue risks, over a period of years. It is a problem which concerns the sum which an individual has set aside for investments—whether $20,000, $50,000, $100,000, or more. We are not concerned with short-term "plays" in individual stocks or casual speculations, but rather with a plan for administering the total fund.

Edmund Brown, Jr.

The first essential is to adopt a plan for managing the fund. Without a plan the results may be disastrous. Almost any plan is better than no plan. The professional man may decide to invest his savings periodically in the shares of a well managed investment company or an established investment fund. That is one plan. Another man may decide to put all his savings in Federal savings bonds, from time to time, so long as he does not need an immediate income from these savings. That is another plan. A third man may concentrate on a given security, such as Gulf Oil or duPont and buy the shares regularly over a period. And so on.

But the more successful plan will be one which contemplates the broad field of investment and which considers (1) the requirement of income, (2) the risks in stocks of varying quality, (3) the risks of price decline in the market, as a whole, (4) the advantage of setting up liquid reserves from time to time, (5) the advantages of diversification, and (6) the probable period of time allowed for attaining the desired results.

*An address by Mr. Brown before the Central Pennsylvania Dental Society Bedford, Pa., Sept. 24, 1953.

### Plan Adjusted to Purposes of The Individual

The requirements of Dr. "A" and his family will differ from those of Dr. "B" and Dr. "C"—their objectives will differ widely —and so the plan must be adjusted to the purposes of the individual.

The first step is to determine the size of the fund. It will not include money or securities set aside for special purposes, such as college education, or a savings account set up for emergencies, or for a trip to Europe, or for Christmas gifts. The investment fund should be independent of these things, except that the ordinary income from the fund may be employed as the owner sees fit.

The second step is to decide how much income is needed from the fund: 2%, 4%, 6%? — and whether the income is needed now or at some future date. An elderly widow will want the maximum income now, even at the expense of some instability in the value of the fund. At the other extreme, the doctor with a good income and high taxes will be interested primarily in building up the fund and reducing his tax exposure. One individual may be willing to hold a substantial amount of cash and invest it gradually over a period. Another will want an immediate return. This requirement of income is of controlling importance.

Having decided the income requirement, we can turn to the type of securities to be employed. There are risks to be considered in most securities except those used for a liquid reserve. During the past six years we have seen declines of 15 to 18% in long-term government and municipal bonds. That is to say, a change in the interest rate presents a risk which may be almost as serious as the fluctuations in sales and earnings of an industrial company.

Turning to the common stock list, there are wide variations in quality. One would expect a steadier income from an established utility (such as Philadelphia Electric) or a food processor (such as General Foods) than from a producer of heavy machinery or a fluctuating commodity such as copper or sugar. One would expect more growth in earnings and dividends from General Electric than from Woolworth. You can plan for consistent income or for growth. By and large, the company with a long dividend record and a strong competitive position will rate higher (regardless of the stock yield) than a company whose record is erratic and operates in a highly competitive market. Consistent growth of earnings will offset many other risks, if this can be found. It may be safer to buy Dow Chemical, yielding less than 3%, than U. S. Steel which appears to yield nearly 9%. Who knows?

### Setting Up a Diversified List

The next step is to set up a diversified list. Diversification is a principle which can be misused and misunderstood. The man who buys a few shares from every salesman who comes along will eventually have a lot of certificates but it may prove to be very poor diversification. Diversification seeks to spread the risk among securities of acceptable quality which represent distinctly different fields of endeavor. Thus a portfolio which includes duPont, Texas Company, Montgomery Ward, National Lead, Douglas Aircraft and Union Pacific is presumed to be stronger than one which concentrates in any one of these stocks. The shares of investment companies, such as Tri-Continental and of Wellington Fund offer wide diversification.

### Question of Timing

Now we come to the question of timing, or taking advantage of the swings of the market. There are some people who feel this is more important than selection of securities, or diversification, or any other device because of the magnitude of the risk. There are some managers of investment companies who feel they can best serve their shareholders by selling securities and going heavily into cash at certain periods. But the record is very much against this procedure (with very few exceptions) and the better performance has been shown by those who kept invested in well selected securities.

Now, how shall we set up a portfolio today, with the market at 258 in terms of the Dow-Jones Industrial Average: down only 13½% from its high of last January. (Many stocks have declined 25 to 30%, or much more than the average of leading industrials.)

In approaching this problem we have to make certain assumptions. Our assumptions are these:

(1) That EPT will expire and corporate taxes will not be much in excess of 50% in the years ahead. This assumes no all-out war.

(2) That personal and capital gains taxes will be no higher and probably lower.

(3) That the growth of population will have a tremendous effect on spending and employment, as the children born during the past decade tend to approach maturity.

(4) That a business recession of some sort is in the making today, but that it will be cushioned by government spending and tax relief.

(5) That the present trends of interest rates and business activity are on the deflationary side; and that further inflationary price movements will be slow to develop.

(6) That because stock prices are not greatly inflated in terms of earnings and current dividends, they will not be so vulnerable as they were, for example, in 1929, 1937, and 1946.

(7) That many enterprises in America are still capable of substantial growth in the creation of new products for a growing population; and that their shareholders, in due course, will benefit accordingly.

The present plan, therefore, for an investor of moderate means with a business or professional income and no immediate prospect of retirement is as follows:

| | % | Approx. Yield |
|---|---|---|
| I Liquid Reserve | 10 | 2½% |
| II Bonds & Preferreds (Tax exempts, if desirable) | 20 | 4½% |
| III Investment Stocks | 40 | 5.00 |
| IV Other Stocks | 30 | 6½% |
| Over-all Return | | 5% |

Needless to remark, the selection of securities for this plan is of primary importance.

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# The Boom Flattening Out

By HENRY B. ARTHUR*

Economist, Swift & Co.

**Though stating we are still on top of a prosperity boom, Dr. Arthur finds a "flattening out," with business outlook good at least until early part of next year. Says more attention should be paid by businessmen to trends in their own company's condition and their own industry problems. Looks for more intense competition, and recounts elements of both strength and weakness in looking ahead. Stresses value of advertising in creating and maintaining consumer demand.**

It surprises us sometimes to realize how short an experience we have had with problems that seem to us to be hoary with age. Thinking or talking of a business cycle was a rare experience prior to World War I. I suppose that a business cycle which we could define as a clear-cut, well-understood phenomenon is about as young as what people in the advertising business would characterize as "scientific advertising." Both of them are not much more than 35 years old even though experience with advertising and experience with business depressions dates far back through the centuries.

H. B. Arthur

Before 1920, we heard about recurrent "crises," about "panics," and inflationary "bubbles," like the Mississippi bubble or the South Sea bubble, but I gather from the literature I have seen that the idea of economic gyrations wasn't more than one of the minor hazards of life prior to 1895, or perhaps 1873. Going back prior to 1900, it seems clear that the ravages of war competed with acts of God, famines, plagues, floods, and the like, for first place among the large-scale risks of our ancestors. Business depressions were a minor consideration although we must realize that for many people there was a chronic, not a cyclical, condition of depression.

It was only 25 years ago that an advocate of scientific advertising wrote that research and scientific method could easily add a great deal to the effectiveness of advertising—not because of any miracle of research, but (to use his words) "because of the nearly complete darkness in which advertising is forced to operate." "Consumers do not know what they want or why they act," he said.

Anyone of us could cite a good many instances to demonstrate how advertisers have emerged from the darkness of a generation ago, helped by the accumulation of knowledge, and research in the improvement of techniques. In our own case, we have seen shortening which used to be valued for its savory lard flavor completely shifted over to a predominance of products which are now almost universally colorless, odorless, and as one of my cynical friends says, "tasteless." This is apparently what the housewife wants, and more power to him who serves her well. Another instance is the radical change brought about in the feeding of infants where meat now enters the baby's diet as a substantial item at ages as young as a few weeks, instead of two years. Your own examples of outstanding jobs of creative advertising and selling are probably even more striking that these.

*An address by Dr. Arthur before the Association of National Advertisers, Chicago, Ill., September 21, 1953.

### Business Cycle Analysis a Recent Development

In the area of business cycle analysis, research has made its contributions over the past 25 or 35 years even though the success stories that can be cited are neither so numerous nor so dramatic as in the case of advertising.

By 1929 we were already learning many things but we weren't doing much about them. Since 1933 we have been "doing." Perhaps I should say we have been "doing," and then "learning" afterward. In any event, there can be no question that we know more about the business cycle than we did a generation ago even though we are all pretty scared about whether we have the answer to the "$64 question" of what to do about it.

I decided recently to look at a few of the economic measurements that weren't currently available in the statistics of 1920. There was no reliable figure to show such stand-by measures as gross national product, national income, personal income, disposable income, farm income, and the like. These are relatively recent inventions. But much more surprising, we didn't then have a current index of industrial production, of building construction, of employment and payrolls, of corporate profits, investment, retained earnings, consumer credit, or the balance of international payments.

An economist without these measurements today would feel like a minister without a Bible.

The meager measures we did have in 1920 included such items as individual commodity prices in the market reports, stock and bond prices, a few records of banking data, commodity exports and imports, gold stocks, government receipts and expenditures, and the various data from the decennial or quinquennial census. During World War I there had been inaugurated a cost-of-living index, supplementing the wholesale price index that had been in existence since around 1900. But aside from a few price indexes, we were relatively devoid of "indexes." Imagine it—only 33 years ago. And now we become a part of an index of birth rates when we are born, of IQ when we go to school, of Nielsen, Hooper, Gallup, or Kinsey as we go through other important experiences, and of the death rate when we die.

We do have the knowledge and the measurements. Of course, we want enough blind spots left to give us necessary alibis when our expectations go sour but I don't know any economist who believes we are doing as good a job of applying our knowledge as we should. The advertising man, I am sure, would have something similar to say about his own business. He has many more facts. He even knows what to do with some of them. But the problems don't stay put. New problems keep cropping up. The only thing sure is that when the sales manager has an ulcer, it always perforates the advertising budget wherever the true cause may lie. I don't know whether it is more fun to have a bombardment of facts to blind and

Continued on page 41

# The Government and Municipal Bond Market

By LEROY M. PISER*
Vice-President, Aubrey G. Lanston & Co., Inc.

**Mr. Piser discusses the government securities market largely in the light of factors that influence the money market. Stresses importance of yield rate on government securities as constituting a basis rate for all interest bearing obligations. Gives factors influencing municipal bond prices, and describes how the government security market and the municipal bond market operate. Illustrates different types of government marketable securities and the manner of their distribution among individual investors and institutions.**

The subject that I have been given is "The Government and Municipal Bond Market," but I would like to add a few words to that title and talk also about "The Money Market." The reason is that the Government bond market and the municipal market can best be considered jointly with the money market. In fact, shorter-term Government securities constitute one of the most important media through which banks adjust their reserve positions in the money market. In this talk I am going to try to give you some detailed analysis of the Government security market and some of the factors that influence the money market.

Leroy M. Piser

The first point that I want to make to you is that the rate on government securities constitutes the basic rate for all interest-bearing securities. The yields on other bonds follow rather closely the yields on Government securities. Differences arise because of differences in credit rating and the greater marketability that Government securities have as compared with corporate and municipal securities.

### Municipal Bonds

I don't want to spend very much time on the municipal market. One important point, however, is that municipal bonds almost invariably yield less than do Government securities. The reason is, of course, that municipals are exempt from the Federal income tax, which now amounts to 52% in the case of corporations.

Another thing to bear in mind in regard to municipals is that the yield will vary with each individual issue. One factor in this is the credit rating that is given to the issue. All municipal bonds are not alike. Those with the highest credit rating naturally sell at a high price and a low yield and will have the greatest differentials. Another factor is the marketability of the issue. Some municipals, such as New York City and New York State issues, have a greater marketability than a little known school district in another part of the country.

Also, these factors will vary over a period of time. When business is good and credit ratings are generally considered high, the differentials among individual municipal issues will be relatively small. When business is bad and credit ratings are less favorable, the differentials will be larger. Another factor is that the relative supply of various types of bonds in the market will also influence their yield. In recent years a very large supply of municipal bonds has come on the market, and this has had a depressing effect on the municipal market as a whole and in relation to the Government security market.

*An address by Mr. Piser at the Third Annual "Forum on Finance" of The Joint Committee on Education representing the American Securities Business sponsored by the Association of Stock Exchange Firms, Investment Bankers Association of America, National Association of Securities Dealers, American Stock Exchange and the New York Stock Exchange at the Graduate School of Business Administration of New York University, New York City, Sept. 2, 1953.

### The Government Bond Market

Before I get into the manner in which we try to analyze the Government security market in our own shop, I would like to describe to you how the Government market and the municipal market operate. They are both dealer markets, and a dealer market, of course, is quite different from a broker market. The main difference is that dealers are principals in most of the transactions they handle. For example, when they purchase a security from an investor, they increase their inventory of securities; when they sell to an investor, they decrease their inventory. There is no marketplace similar to a stock exchange, but each dealer is in constant touch with other dealers, checking the markets that other dealers are making, and is in constant touch with customers.

The reason for a dealer market instead of a broker market, I think, lies in the average size of the transactions and the fact that many transactions are negotiated. For example, if a bank comes to us and wants to sell $10 million or $15 million of a particular issue of Government securities, we may not immediately have a buyer for those securities, but we are very likely to purchase the securities anyway, take them into our position, and hold them until such time as we can sell them. Perhaps we don't know of any customer at the moment, and we don't particularly want to add those securities to our position. In that case, we will take only a portion of the amount offered and will call around to other customers to see if we can find a buyer. We may find that one of our customers would be interested in that particular issue. A good many of the transactions in the Government market, therefore, have to be negotiated. A good many of them are of such large size that sometimes it may take several days or longer to work out the transaction.

All of the transactions on the part of dealers are net; that is, we charge no commission for executing a transaction, as they do on a stock exchange. The means by which we pay the overhead of the business and make a profit is in the difference between the bid and the asked quotations that we have on each issue. For example, we may bid 99 4/32 for an issue and offer it at 99 8/32, in which case, if we are able to execute a transaction at those prices, the difference of 4/32 is the income that we make on that particular transaction. On actual transactions, however, the spread is more likely to be 1/64 or 1/32, instead of 4/32.

### The Dealers' Activities

In order to establish a market, dealers are continually in touch with their customers, so that when a possible trade comes in, they are able to place securities that are offered or are able to find securities when there is a bid for them. Otherwise, they may allow the transactions that come in to change the inventory of those securities that they hold. Dealers are also constantly in touch with other dealers and are continually checking prices back and forth, which enables all of the dealers to keep rather close to each other with respect to the buying and selling prices that they quote.

The importance to a dealer of being able to judge the market is illustrated by the fact that during a period of a little more than a year, from May 1952 to June 1953, long-term Treasury bonds declined by some nine points. Any dealer who had a long position continuously throughout that period would have found it a very costly operation and might very well have had his capital either wiped out or seriously impaired. As a matter of fact, in running a position, a dealer, for the most part, will have a long position in some issues and a short position in the other issues. A dealer may acquire a long position, for instance, in a particular issue that has been offered in the market in large size. This may prove to be a profitable position to take, because when an issue is offered in considerable size in the market the price of that issue is frequently temporarily depressed in relation to other government security issues. The dealer also may acquire a short position in an issue that has been temporarily in large demand and consequently the price of which has risen in relation to other securities in the market.

A great many types of government securities are outstanding with the public. Nonmarketable securities consist principally of the familiar savings bonds, savings notes, and two investment series of Treasury bonds. In the government security market, we trade only in the marketable issues. Transactions in the nonmarketable securities are directly between the investor and the Treasury Department.

Nonmarketable securities, however, do have an influence on the government market. For example, a few months ago the Treasury increased the rate on savings notes, which are a nonmarketable security, and thereby made them relatively more attractive in relation to marketable securities. Prior to that time the yields on savings notes did not compare favorably with those on marketable issues, and savings notes had been redeemed in rather large volume. The increase in the rate brought them into better relationship with the rest of the market.

### Treasury Bills

Among the marketable securities the shortest issues are Treasury bills. Most bills are issued to mature in three months. Certificates of indebtedness have an original maturity of up to one year, and notes are issued with an original maturity of between one and five years. Bonds are longer-term issues. Some of them are restricted as to ownership to nonbank investors for a period of years, and the remainder are eligible for purchase by commercial banks. The latter are divided into those that are fully taxable and those that are partially tax-exempt. The latter have different values to different organizations, depending upon the value of tax-exemption to the organization.

All of these different segments of the market are interrelated to some extent, but each one is also dominated by somewhat different factors. The long-term market is dominated principally by what may be called nonbank financial institutions. The largest single holders of long-term Treasury bonds are mutual savings banks. Running them a close second are life insurance companies. Pension funds and State and local government retirement funds are large and growing holders of government securities. Other holders include fire, casualty, and marine insurance companies.

These institutions generally consider government securities as residual investments or investments of last resort. This means that they prefer to hold higher yielding mortgages and corporate bonds. It is only if they have funds that they are unable to put into private loans and securities that they will usually buy government securities.

For example, between the end of 1941 and the end of 1945, the period of World War II, the net amount of savings coming into the hands of life insurance companies was $12 billion. During this period there was such a small amount of residential building and of new plant and machinery that their holdings of private assets actually declined by $2 billion. In other words, the amortization and maturities from the portfolio that they had at the beginning of the War exceeded the new mortgages and corporate securities that they were able to acquire during the War. As a result the life insurance companies placed $14 billion of their funds in government securities.

That position was reversed after the end of the War. Since the end of 1945, the total assets of life insurance companies have increased by $31 billion, but their holdings of private assets have increased by $41 billion. They have balanced their investment position by selling $10 billion of government securities.

During the past year their selling has been at a much smaller rate than it was in some of the earlier postwar years. During the past year the total assets of life insurance companies have increased by $5.1 billion and their private assets by $5.4 billion. As a result they have sold only about $300 million of government securities, compared with a peak of $3.3 billion in 1948, $1.8 billion in 1950, and $2.4 billion in 1951.

As I mentioned earlier, they have sold a total of $10 billion of government securities since the end of 1945. During this same period sales by mutual savings banks totaled $1 billion. These sales were an important factor in the decline in bond prices that started shortly after the end of the war.

Another factor in the long-term Treasury bond market is purchases by pension funds and State and local retirement funds. As these funds continue to grow, we may expect them to be of increasing importance in the long-term market.

### Corporate and Individual Bondholders

Nonfinancial corporations, generally business corporations, hold principally savings notes and short-term marketable government securities, principally bills, which, as I said earlier, are generally issued to mature in three months. Corporations hold these

*Continued on page 48*

# We Must Stop Socialistic Trends And Return to Solvency

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

**Stating that, as Chairman of the Senate Appropriations Committee, he is giving serious thought to complex problems of economy, Sen. Bridges calls for immediate end of Socialistic trends which threaten nation's solvency. Says Eisenhower Administration has made a good start towards that goal, and we can have a new era of prosperity by restoring a "sound dollar." Mentions his bill to restore gold standard as inflation curb.**

In my capacity as Chairman of the Appropriations Committee of the United States Senate, I have devoted many hours of serious thought to the complex problems of economy which face this nation today. The deliberations of our Committee leave me more firmly convinced than ever that the strength of our republican form of government, and the security and well-being of the peoples of this great nation, depend in full measure upon preservation of the system of free enterprise which you, the leaders of New England industry, so ably represent.


Sen. Styles Bridges

Let there be no misunderstanding. America has reached the crossroads of decision; and there is but one choice. We must return to the precepts which have raised our republican form of government to the heights we know today. We must stop and stop immediately the socialistic trends which have been insidiously enveloping this nation, like a creeping paralysis for the past 20 years. You may recall that a form of communism, the ultimate reflection of socialism, was attempted in the infancy of this country with almost disastrous results. The experiment of one of our early colonies in pooling the common wealth for equal distribution among all the colonists, energetic and lazy alike, was a miserable failure and very nearly ended in the literal starvation of those early pioneers. The lazy saw no reason to work, so long as they could be supported by the industry of others; the industrious had no incentive to produce unless they could enjoy the fruits of their additional labors. The profound truth which was learned by those early peoples is one which deserves our earnest consideration today. An economy to be strong must be nurtured in a climate of free and unencumbered initiative.

Communistic totalitarianism has thrown its gauntlet at our feet and the challenge is squarely before us. We must recognize the dangers which America faces and will continue to face in the months ahead, and accept the responsibility which is ours.

### Strides Toward Eisenhower Goals

President Eisenhower promised this nation a return to stable economy; a dynamic and progressive program to be sure, but one within the framework of our traditionally free society with its system of checks and balances and its accent on individual enterprise. His principal objectives were unmistakably clear. They were to create and preserve a sound prosperity founded in realism, to reduce and eliminate the unwarranted expenditures of public monies, to remove the deficit from our public budget and to lessen the burden upon corporate and individual taxpayers which had been levied by years of inflationary fiscal practices. In my judgment, great strides have been made toward these goals by the Administration and the Congress, although there admittedly is much to be accomplished. I would be less than candid if I were to suggest that the simple fact of a change in Administration and Congressional leadership had the magical quality of curing all of our problems, economic or otherwise. We cannot avoid the consequences of unwise political and fiscal management so easily. I can say with assurance, however, that a real and constructive beginning has been made.

Let me take you back for a moment to the government's financial picture as we saw it on January 20th of this year, the day President Eisenhower took office. In January, the Truman Administration had presented to the Congress Budget requests totaling over $79 billion. Included in this huge amount was an increment of approximately $10½ billion of permanent appropriations, so-called, over which the Congress had no control: as included in this amount were interest on the national debt, refunds on taxes collected, payment into the sinking fund for debt retirement, and payments into numerous other miscellaneous accounts. The Truman "spending" budget, which amounted to approximately $68.6 billion, was examined by the Administration and the Congress with a severely critical eye, in the light of cold hard necessity. As result, the Eisenhower Administration reduced the estimated needs to slightly over $59 billion, a reduction of approximately $9½ billion. The Congress, principally through its two appropriations committees reduced this $59 billion by another $4½ billion. Thus the total appropriation was something in excess of $14 billion under the budget requests conceived by the prior Administration. The final figure represented a reduction of nearly $21 billion from the total amount appropriated by the previous Congress and, as a matter of interest, was the largest appropriations cut that has been made by a single Congress in the history of the United States or of the world. It striking, by way of illustration, that the total valuation of my own State of New Hampshire, is in the neighborhood of $750 million, and that this reduction represented a saving to the taxpayer of an amount which is 30 times that valuation.

### 20% Reduction of Truman Budget

This huge saving, amounting as it did to about 20% of the Truman Budget, was accomplished only through teamwork and cooperation between President Eisenhower and the Cangress, and a real determination on the part of Administration and Congressional leaders to invest this nation with a sound economy. Our goal was to substitute orderly fiscal and business practices in government for the bureaucratic mismanagement which many believed was leading us to financial chaos. I recall that when the Senate Appropriations Committee was first confronted with the Truman budget, President Eisenhower requested the Chairman of the Appropriations Committee of the House of Representatives and myself to meet with him and the Director of the Budget, to see what steps could be taken to improve the budget situation in the short time available to us. Bear in mind, if you will, that the Government of the United States is a tremendously complex undertaking, that there are fixed obligations which must be met and that there are services which must be performed without interruption. It was necessary then, that an orderly transition be made and that unnecessary spending be stopped without impairment of necessary functions. In view of these considerations, it was decided not to discard the budget of the previous Administration entirely and begin anew, as we would have preferred to have done had time permitted, but rather to take that budget, revise it and improve upon it. Accordingly, the new heads of departments and agencies of the Executive Branch of Government were requested to re-examine their needs and to submit revised estimates for the consideration of the Congress. This was done promptly. The size of reductions was not only startling but a source of real satisfaction to those of us who are determined that the Government of the United States shall operate on a businesslike basis, without waste or corrupt practices, in the same manner that we would run a private enterprise. As soon as these revised estimates were presented, the Appropriations Committees took up their work and proceeded to complete in less than four months what normally is accomplished in six to eight months. The success of this effort is reflected in the additional cuts that I have described.

I should like to make it clear that this reduction in spending was not made capriciously or without full and serious contemplation of the effects which would be realized. In some instances, where a thorough and precise accounting was rendered to the committee, no cut was made at all. In other cases, where the need for additional funds became apparent to the committee, slight increases were allowed. In general, however, it was found that substantial savings could be made without impairment of governmental function and without injury to our security of economic well-being. The formula which our committee used in reducing appropriations was a basic, sensible and effective one. In some respects it might be compared to the budget practice each of us employs in the management of our individual households.

### Security of Nation the First Consideration

Our first consideration was for the security of the nation. No reductions were made which would have the effect of injuring our defense preparations. It must be agreed, I think, that none of us would deliberately or consciously deny our homes the protection of our municipal fire department, on the hopeful theory that fire will never threaten us or our neighbors. We can and should insist, however, that the fire department be so operated as to provide us with the fullest possible protection against potential danger for the fewest number of dollars. That was precisely our intention with respect to the defense program. President Eisenhower told the nation in a recent

Continued on page 38

*An address by Sen. Bridges before the New England Council, Portsmouth, New Hampshire, Sept. 18, 1953.

# Business Taking Readjustments in Stride!

**Murray Shields, Vice-President and Economist of the Bank of the Manhattan Company, tells New York Sales Executives' Club the negligible impact of recent adjustments in general business is a demonstration of economic power, which portends a considerably more rapid growth of our economy than in past.**

In an address before the Sales Executives' Club of New York in New York City on Sept. 22, Murray Shields, Vice-President and Economist of the Bank of the Manhattan Company asserted that as an exhibition of sheer economic power, the record of accomplishment of the nation's business during the past 12 months offers the greatest reassurance for the long range outlook.


Murray Shields

Business, Mr. Shields stated, has produced and sold more goods—in dollar as well as in physical terms—to civilian consumers than ever before. It has lifted its productive efficiency to still another new high. It has put in place more new capacity than in any 12 months' period in our history. It has produced a vast quantity of goods for foreign aid. It has produced more military weapons by far than in any prior peacetime year. It has added materially to government, business and consumer inventories. And the significant fact is that it has done all these things simultaneously.

In addition, the bank economist pointed out, business in this country has during the past year accommodated itself without serious difficulty to a number of far-reaching adjustments. The money markets have shaken off the artificialities of the long period of arbitrarily enforced cheap money with credit now somewhat more costly and moderately tighter than has been the case for many years. Agricultural prices have declined in the face of increasing supplies. The post-Korean inflation in a number of individual commodity prices has been eliminated. In a few industries retrenchment has been the order of the day. It is of the highest importance that the "rolling readjustment" to which our economy has been subject has removed some of the potentially dangerous sources of imbalance without a general contraction of business volume.

Such a demonstration of economic power, Mr. Shields contended, suggests that we may be on the edge of an historically significant period when the trends of long term growth in our economy can be considerably more rapid than those of the past. There is every reason for confidence that with genuinely stimulative policies on the part of government, business and labor the recent and prospective gains in agricultural, medical, metallurgical, industrial and management technology will keep the United States for years, and perhaps for decades, at or near the top of the list of "growth countries" of the world. This is true because we have succeeded in organizing research into a predictably productive process adequately financed by government and business, and staffed with the world's most competent scientists. Thus it is that hardly a day passes without the announcement of a potentially significant new industry or of a substantially new source of raw materials, or of new machines and techniques capable of reducing real costs materially and of widening our markets. Anyone who takes the trouble to learn what our scientists are doing in their laboratories will obtain dramatic evidence that the technological gains of the past are but a foretaste of vastly more productive progress in the future.

Another vitally important but much less well appreciated fact, according to Mr. Shields, is that gains in management technology provide assurance that we shall be able to reduce still further the time lag between the invention of something new in our laboratories and its effective use by our consumers. Business management has in the past 20 years become far more professional in attitude, experience and education than was the case before. It has become growth minded and convinced that research pays dividends. It is now highly skilled in using advanced techniques of promotion, labor relations, production, control and administration. It has a new determination to maintain sound financial standards. It is careful to base capital expenditure programs on sound market research—a science which hardly existed a quarter of a century ago. It is more interested in merchandising margins than in illusory inventory profits and concerned not as much in a quick profit as in building durable and continuing business institutions. Private business is, of therefore, sure to give us a great expansion in the long run and to leave itself less exposed to trouble during periods of economic readjustments.

This does not mean, Mr. Shields warns, that we have reached the Utopia of a depression-proof economy for we could experience a moderate depression or a fairly serious recession in the event that it became necessary for our business to accommodate itself to a simultaneous cut back in defense outlays and a pause in consumer and business purchasing to restore balance to inventories and to permit demand to grow up to our greatly expanded capacity. The growth potential does mean, however, that there is no possibility whatever that we shall experience "another 1929," that any period of readjustment will be both brief and temporary and will but set the stage for another great period of progress and prosperity and that with sound policies the long term trend of growth in the future can be considerably more rapid than that of the past.

# Sam Stallard Joins Dean Witter & Co.

CHICAGO, Ill.—Dean Witter & Co., 141 West Jackson Boulevard, announce that Sam M. Stallard is now associated with their municipal bond department. He was formerly Chicago Manager for the White-Phillips Company.

# Eastern Securs. Wire To Ames, Emerich Co.

Eastern Securities, Inc., 120 Broadway, New York City, announce the installation of a direct wire connection to Ames, Emerich & Co., Inc. of Chicago.

# Current Thinking at the SEC

By RALPH H. DEMMLER*

Chairman, Securities and Exchange Commission

**In explaining the tasks now being undertaken by the SEC, its Chairman outlines the "backdrop" against which the Commission is thinking and acting. Says there is no ground swell of public demand for a sweeping change in the Securities and Exchange Acts, and both Democratic and Republican members of SEC are in harmony as to all basic objectives. Discusses legislative and reorganization programs now being studied. Decries suggestion SEC be supplanted by a fraud statute, and concludes aim of SEC is to perform its statutory duties without adding unnecessarily to complexity of capital formation.**

The Securities and Exchange Commission, as an administrative body charged with the regulation of such a sensitive, important and dynamic segment of our national economy as the capital markets, should keep examining and re-examining its major premises. Yesterday's problems are not necessarily t o d a y's. Stampeding buffaloes no longer bother the transcontinental traveler.

A five-man Commission with three Commissioners appointed by the new national Administration has a special responsibility to appraise the work and the attitudes of the agency and its staff. The two Commissioners who hold their appointments from the previous Administration have a wealth of experience to bring to bear on the problem. The three new Commissioners coming from the outside should furnish some freshness of outlook.

It goes without saying that the Commission as presently constituted does not intend to sabotage the statutes it administers. The Federal securities laws are not in the hands of their enemies.

I want to talk about how the Commission is approaching its task and to indicate in fairly specific terms what it is doing.

But first, let me paint the backdrop against which our action takes place:

(1) The statutes administered by the Commission have not been substantially amended since their enactment. The Public Utility Holding Company Act of 1935, the Trust Indenture Act of 1939, the Investment Company Act of 1940 and the Investment Advisers Act of 1940 have not been amended at all. This furnishes some foundation for the observation that Congress over a number of years has accepted the basic approach to securities regulation represented by the Acts which the Commission administers.

(2) Neither is there a ground swell of public demand for a sweeping change in the Acts administered by the Commission. There are some elements, perhaps more vocal than representative, who advocate the abolition of the Commission and the repeal of the Acts administered by it. And there are m a n y representative, responsible and informed people who think that the Commission in certain areas has from time to time gone beyond its statutory powers in an excess of regulatory zeal; that it has been dominated by its staff; that both staff and Commission have sometimes been high-handed; and that the Commission has been careless of other peoples' time and money in imposing on issuers and underwriters useless and duplicative paper work. There are also many representative, responsible a n d informed people who think that some legislative changes are necessary to remedy defects, ambiguities and impracticalities in the Act which experience has shown to exist.

(3) The capital markets and corporate issuers have become accustomed to the pattern set under SEC regulation. Business, corporate, legal, underwriting and accounting morality have improved as a result of conformity to standards imposed by the Acts and by the Commission acting thereunder.

(4) The Hoover Commission's Task Force found that the Commission "on the whole has been notably well administered," that the critics of the Commission "concede that its staff is able and conscientious, and that the Commission generally conducts its work with dispatch and expedition where speed is most essential." It also said: "There are of course some weaknesses . . . but in evaluating them, one should keep in mind the basic fact that the Commission is an outstanding example of the independent commission at its best."

(5) The Commission in the Acts administered by it is given unusually broad powers to make rules and regulations which have the force of law. This rule-making power is characteristic of administrative agencies, which are quasi-executive in their enforcement functions, quasi-judicial in their decisional functions and quasi-legistlative in their rule-making functions. The ingenuity of the American business community constantly c r e a t e s new problems with which conventional legislation must necessarily deal in general terms, leaving to the administrative agency as a quasi-legislature the job of filling in the details to meet changing conditions and particular types of situation. There are more than 100 instances in which the Commission is expressly granted rule-making power. For example, the Securities Exchange Act forbids stabilizing in contravention of such rules and regulations as the Commission may prescribe as necessary or appropriate in the public interest or for the protection of investors. The Public Utility Holding Company Act provides that the Commission by rule, regulation or order exempt both companies and transactions from certain provisions of the Act.

The $300,000 exemption from registration under the Securities Act stems from a power granted to the Commission to provide such exemption by its rules and regulations.

The existence of this rule-making power, however, creates recurring problems which will never be solved to the satisfaction of all:

(a) There is danger of adding new rules to old rules, a revision here and a revision there, until a literal jungle of regulations has grown.

(b) Rule-making power imposes a duty of restraint but it also imposes a duty to use the power to strike down abuses as they develop.

(c) There will always be room for argument on both sides as to whether or not a specific power is being abused.

### Approach to the New Job

So much for the backdrop. Now let me discuss our approach to our job.

First, as to the philosophy of the present Commission:

Let me start by eliminating any distinction between the two pre-Eisenhower Commissioners—Paul Rowen and Clarence Adams—and the three new appointees—Sinclair Armstrong, Jackson Goodwin and myself. The Commission is in harmony as to all basic objectives. Its members have had frequent informal, long and serious discussions at which they have explored each other's thinking. Naturally, there are shades of opinion, but I can assure you that the Commission is composed of five highly normal middle-of-the-roaders. As such, we all have considerable pragmatic blood in our veins.

Second, as to a legislative program:

In the hearings before the Senate Banking and Currency Committee on the confirmation of each of the three new Commissioners, it was made quite clear that Congress and not the Commission is the legislative arm of government. However, it was inherent in the colloquy between each nominee and the Committee that the Commission, because of the technical nature of the subject matter, could properly act as a catalyst in any legislative program.

Representative organizations in the fields regulated by the Commission are formulating a definite program for legislation and for rule changes. Some items of the program have been forwarded to the Commission. As programs are formulated, representatives of the participating organizations w i l l confer with the Commission in an endeavor to determine areas of agreement. The Banking and Currency Committee of the Senate and the Interstate and Foreign Commerce Committee o f t h e House will be kept advised of progress. This general method of approach h a s b e e n informally cleared with the Chairmen of both the Committees mentioned above.

It would be premature and inappropriate for me to speculate as to what kind of legislative program will be offered to the Congress with or without the Commission's blessing. Certainly there is room for some clarification in the statutes. For example, there is a strong case for spelling out in the statute a proper practice as to the furnishing of a prospectus which will make that document the medium of information for the prospective investor that it is intended to be.

Third, as to regulations—forms—details:

It is recognized that a considerable part of any program will be effectuated by rule changes and form changes. Entirely apart from a willingness to consider suggestions by regulated groups, the Commission acknowledges an obligation on its own part to initiate steps to improve and simplify its own regulations and forms. This responsibility is easier to affirm than to carry out. Each change of a rule or a form is likely to necessitate some change in another rule or form. Each requirement that is given up finds a strong and usually a logical defender.

The Commissioners have been meeting among themselves and have also had frequent conferences with staff members. Guiding the discussion at s u c h conferences have been agenda of specific and detailed proposals. Certain Commissioners have been delegated to examine, and report back to the full Commission their recommendations with respect to specific matters.

Out of these discussions have emanated some of the specific proposals which I shall discuss later.

Fourth, as to organization and programs:

The Commission has under study the organizational set-up of its staff. Lines of command, particularly with respect to the regional offices, are not clear. Autonomy of regional offices represents desirable decentralization up to a point. However, the independence of action which this permits has resulted in insufficient liaison between the regional offices and Washington and among the regional offices. The reconstituted Commission hopes to provide for more effective coordination of regional office activities and for core accurate knowledge in Washington of what is happening currently in the regional offices, and to do these things without making Washington a bottle-neck.

Effective administration of the regional offices is the key to effective enforcement. And you may rest assured that the Commission proposes to enforce the law. A vigorous program to detect and punish fraud is no deterrent to legitimate enterprise.

The Acts provide for enforcement via investigation, discipline, criminal prosecution and injunction. The enforcement machinery is stirred to action either by private complaint or Commission investigation. Many violations are turned up as a result of so-called broker-dealer inspections. When the Securities Exchange Act of 1934 was under consideration in Congress, there was some thought given to having regular inspections analogous to bank examinations. This idea was abandoned and in its place was substituted a provision for investigation at the discretion of the Commission.

The legislative direction is such

*Continued on page 55*

*A talk by Chairman Demmler before the Calvin Bullock Forum, New York City, Sept. 24, 1953.

# Faults and Virtues of the Public Debt

By W. RANDOLPH BURGESS*
Deputy to the Secretary of the Treasury

**Former prominent New York banker, in discussing faults and virtues of the Public Debt, finds that from a broad economic point of view the faults of our present huge debt outweigh its virtues. Points out our ability to carry the debt depends on growth, nourished by a free dynamic economy. Reveals shape of the National Debt, and lays down as principles of debt management: (1) avoidance of inflation or deflation; and (2) avoidance of impairment of dynamic economic growth. Says debt reduction is traditional American policy.**

The Treasury has a fine collection of portraits of former Secretaries, which are available to furnish its offices. When I moved into my historic office, I asked for the portrait of Carter Glass, of Virginia, and he hangs on the wall behind me, looking over my shoulder. If I can turn around and look him in the eye without quailing, I am satisfied.

W. R. Burgess

Carter Glass believed in sound money, vigorously, tenaciously, and, at times, explosively. The Federal Reserve System, which he fathered, is this country's best instrument for sound money, as Secretary Humphrey suggested yesterday.

Carter Glass constantly reminds me of two principles.

One is that sound, honest money today, as always, is cherished and promoted by distinguished men of both parties.

The other is that the Treasury's role in maintaining sound money can be realized only in close and daily cooperation with a free Federal Retserve System. That cooperation has been present in full measure this year. I believe there is no finer body of devoted public servants than the men and women in the Federal Reserve Board and Banks; they have proved it once more, as they have worked with the Treasury in recent months.

For years, I have known the public debt, but in the past nine months, since I became her slave, I have learned more of her tricks. She is a tough old bird to handle. She pokes her way into every cranny of American life, and she goes around interfering with all sorts of people.

*An address by Mr. Burgess before the 79th Annual Convention of the American Bankers Association, Washington, D. C., Sept. 23, 1953.

The public debt levies interest payments on every one of us as taxpayers. But her most serious misbehavior is the way she disrupts the flow of our economic life when she gets out of hand. In the war, she and her wicked economic side partners caused inflation, and, even since 1946, she and they got out of control and put the cost of living up 35%. She breaks into the money market and the investment markets and disturbs the peace. She seems to be always under foot.

We should, however, remind ourselves that this character, like the girl with the curl on her forehead, can be good as well as horrid.

Our public debt today is, in part, a symbol of a great war which we and our partners won.

Almost everyone in this room is a holder of part of the debt in the form of Savings Bonds or other Treasury obligations. These bonds are among our most prized and satisfying possessions. In this uncertain world, they give us a sense of assurance and security. They may fairly be called the world's best investment.

The interest paid on the government debt is not just a cost to the people; it is income to millions of individuals, either directly or through life insurance and savings accounts. When rates rise, the benefits as well as the costs increase.

In candor we would admit, however, that, from a broad economic point of view, the faults of our present huge debt far more than offset its virtues.

In the long run, the only real solution is gradually to reduce the debt. That is the American way. We have always done it before, and I believe we will again. Until we live in a more peaceful world, progress in this direction will be slow, though we have started moving in the right direction.

Also, our ability to carry the debt depends on growth. If we nourish a dynamic economy of free men, so that our strength grows steadily and surely, the debt won't seem as big. That is the lesson of history.

There is a third course—to inflate—to so increase the national income by price inflation that the debt seems relatively smaller. That is a form of partial repudiation, a reduction of the real value of our bonds and our money. That is what has been done—and what we are stopping. We want growth and not inflation.

Meantime, before we reduce the debt, we have to live with her.

### The Program

In his State of the Union Message on Feb. 2, President Eisenhower, in dealing with the national debt, said:

". . . It is clear that too great a part of the national debt becomes due in too short a time. The Department of the Treasury will undertake — indeed has undertaken — at suitable times a program of extending part of the debt over longer periods and gradually placing greater amounts in the hands of longer-term investors.

". . . Past differences in policy between the Treasury and the Federal Reserve Board have helped to encourage inflation. Henceforth, I expect that their single purpose shall be to serve the whole Nation by policies designed to stabilize the economy and encourage the free play of our people's genius for individual initiative. . . ."

### Facts

The facts of the shape of the debt are a matter of public record.

In 1953, the Treasury has had to finance maturities and redemptions of over $60 billion and a deficit of $9 to $10 billion. Thus, a sum equal to one-fourth of the national debt had to be financed in a year. Before the end of the year, we shall have gone to the market, either for refunding or raising cash, nine times, exclusive of weekly offerings of Treasury bills.

Nearly three-quarters of the debt matures, either definitely or optionally, within five years.

A substantial part of the inflation, which doubled the price level and cut the buying power of the dollar in half in 13 years, was due to financing too much of the debt at short-term through the banks and so creating bank credit, in effect, printing money. The total money supply, currency and bank deposits, swelled from less than $65 billion in 1939 to $195 billion in December 1952. This printing press operation doubled the price level—the cost of living—more than doubled the price of a house—of a piece of beef, or a suit of clothes. Every person in the country was hurt in one way or another and especially people who saved or who lived on fixed or sluggish incomes. The only gainers were the speculators or the pressure groups which kept their own incomes a jump ahead of the trend.

These facts, with which you are all familiar, were the reasons for the President's program of debt management.

### Two Principles of Debt Management

Now a few words as to the framework in which debt management operates. It is not just a mechanical problem, nor is it just a problem of finding markets. The national debt is woven into every corner of our economic life. What can be done with the debt depends on the stream of incomes and expenditures and savings and investment. And, in turn, what is done with the debt has a vigorous impact on the whole financial life of the country and on the welfare of all the people.

Therefore, debt management cannot be conducted in a vacuum but is related to the country's economic life. And I suggest that there are two great principles which form the objective and the framework for decisions on the debt.

The first is to avoid inflation or deflation. That means to manage the debt in the interest of sound, honest money which retains a fairly stable buying power. That apparently simple statement covers a lot of territory. It is shorthand for a seething mass of operations by which the Treasury pumps money out to pay its bills—takes money out of the market as it collects taxes and borrows, dealing each time with thousands of banks and millions of individuals.

If the Treasury has to borrow money too often in the course of a year, it has no elbow room to turn around; it is constantly off balance and keeps the market off balance. Even worse, a continuous stream of Treasury borrowing leaves no space in the market for the Federal Reserve System to operate, when it needs to make a policy move to resist inflation. The Reserve System cannot serve two masters at the same time; it can't lend necessary aid to Treasury financing and, at the same time, tighten money to check inflation in the broad public interest.

The amount, the character, the placing, and the timing of public debt moves add up to pressure for inflation or deflation. We want to avoid both.

The second great principle of debt management is that it should aid and not impair the dynamic growth of the economy. It must not impede the free flow of funds into business enterprise. Its policies should encourage savings, for saving provides the capital basic to economic growth.

### Operations in 1953

In accordance with the foregoing principles, our problem in 1953 was not just one of finding out what securities the market would take at what rate, but it was also one of making an appraisal of the economic situation to make sure that our operations would stimulate neither inflation nor deflation. This meant, in fact, deciding our policy in cooperation with the Federal Reserve System, whose duty it is under the law to administer the money supply with these same objectives.

By any objective test, the country was at or near the top of one of the greatest booms America had ever known. The production index of the Federal Reserve Board was making new high peacetime records month by month and was 10% higher than the year before. The national income measured in inflation dollars was steadily climbing and was $20 billion larger than a year ago.

There was full and overtime employment.

Private bank credit was still rising, particularly in the fields of consumer credit and real estate credit, in a way that was giving concern to many careful observers. Heavy deficit financing faced us, and direct controls were being lifted.

The principal offsetting tendency was weakness in some agricultural prices, due to large crops and diminished exports.

In the judgment of the Federal Reserve System, there were still inflationary pressures; the Reserve Banks raised their discount rates early in the year and the System was pursuing a general policy of credit restraint.

What this all added up to was that the Treasury ought to finance its deficit and handle its refunding in such a way as to avoid an increase in bank credit through our operations. This meant financing with securities that could stand on their own feet without Federal Reserve support and which would be taken largely by non-bank investors.

Accordingly, we made an analysis of the availability of funds.

Continued on page 31

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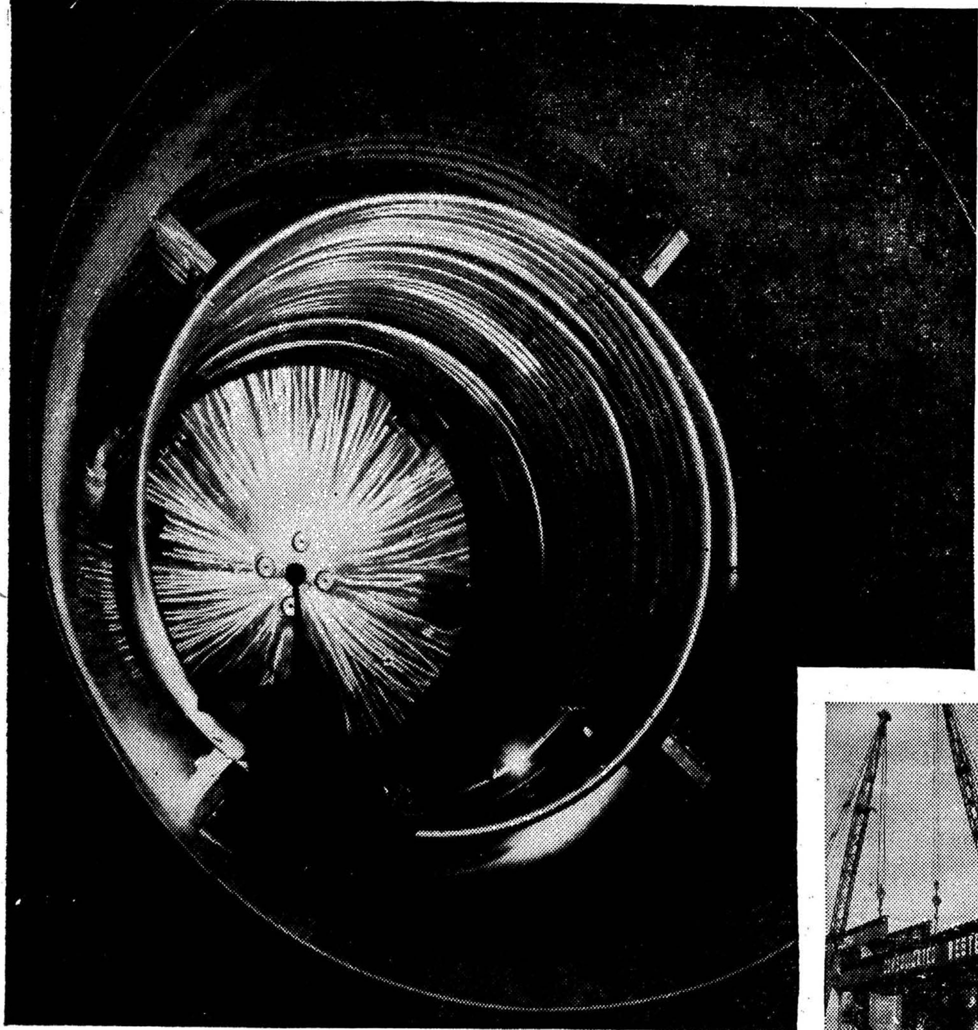

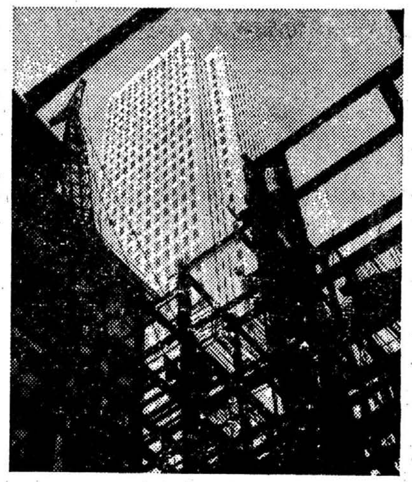

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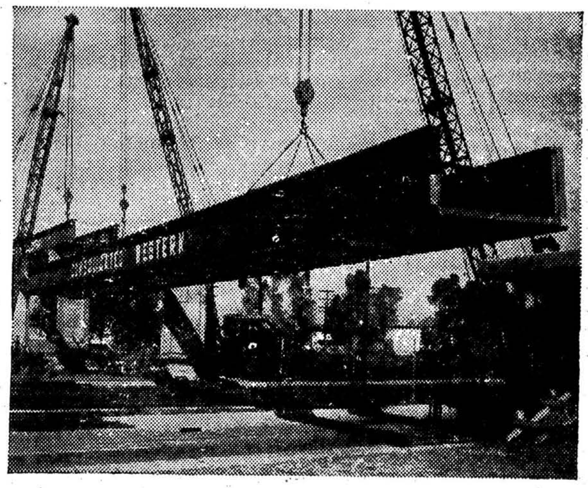

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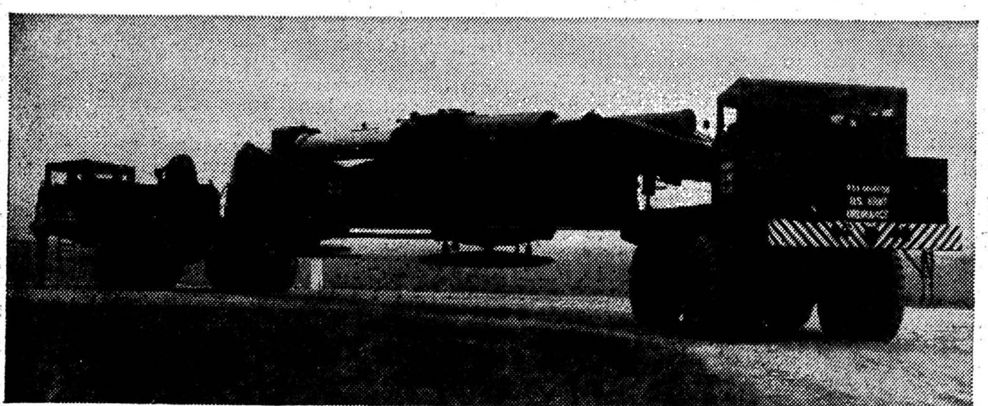

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# The Outlook for Interest Rates

By ROY L. REIERSON*

Vice-President, Bankers Trust Company, New York City

**Commenting on the bond market crisis, which arose from the tightening of credit and rising interest rates last spring, New York bank economist holds present indications are that demand for investment funds generally is likely to show some decline in 1954, but increased borrowing by state and local governments may offset this trend. Sees economic forces operating to produce moderately tighter credit, but holds course of money rates will be governed largely by the policy of the monetary authorities. Discusses debt management problems, and reveals difficulties involved in attempting to sell long-term Treasury securities in prevailing environment.**

Roy L. Reierson

Appraising the outlook for interest rates has become an increasingly challenging task. As long as Government bond prices were pegged by the Federal Reserve, the range of possible errors in assessing the future was limited by the determination of the monetary authorities to support marketable long-term Treasury bonds at a 2½% yield. Even after the accord between the Treasury and the Federal Reserve in March, 1951, and the subsequent withdrawal of support from the Government bond market, the continued assistance rendered by the Federal Reserve to the Treasury's refunding operations provided a measure of assurance against any really precipitous declines in prices of Government obligations. Some months ago, however, we experienced one of the sharpest increases of interest rates in many years. This development was interesting, illuminating and instructive; in assessing the future, it cannot be ignored.

### The Recent Bond Market Crisis

The tightening of credit in the spring of this year was remarkable not only for the fact that money rates and bond yields reached peaks not seen since the early 1930's, but even more for the rapidity with which this squeeze developed. The average rate on new Treasury bills, which had moved around 2.06% in the first quarter of the year, rose to a peak of 2.42% early in June. The 2½% Victory bonds, which had opened the year at about 95½ and were quoted around 93½ at the end of March, slipped to a low of 89 15/16 on June 2. At the same time, corporate bond yields, especially on new issues, rose spectacularly, and yields on municipal obligations also moved sharply higher.

The rapidity of the advance in rates and yields was accompanied by widespread apprehension in the financial markets. It brought to mind earlier instances of credit tightening, such as in 1920, when the postwar inflation was being brought to a halt, or in the late 1920's, when efforts were being made to curb the stock market boom, or in 1937, when restrictive credit policies again contributed to a substantial drop in bond prices. Consequently, late in May and early in June 1953, the markets at times appeared distressed and disorganized, until effective Federal Reserve action to supply more funds helped restore confidence and reverse the trend.

Despite the tight credit squeeze of the spring months, no significantly damaging effects have become noticeable in the economy. For most holders of Government obligations, the decline meant little more than a book loss which by now has been partly recovered; some financial institutions showed sizable declines in the book values of their bond portfolios but their stability, solvency and earning power were not jeopardized. Throughout the entire period, the volume of trading in Treasury bonds remained moderate, indicating that the decline in quoted prices was not accompanied by any important liquidation. Even where losses were realized, this was frequently done to achieve tax savings and to reinvest the funds at more remunerative rates. Nor do business activity and employment appear to have been unfavorably affected; most of the business indicators are still at high levels. Because of the complexity of the problem and the time lags involved, we shall probably never be able to say with certainty whether or not the developments in the bond market in the spring of 1953 adversely influenced the volume of investment in 1954, especially since even prior to these developments, many observers had come to expect some decline in investment activity in the period ahead.

### Development of the Credit Squeeze

In retrospect, the sharp rise in interest rates appears to have evolved out of a unique combination of circumstances and events. The major factors at work were peak economic activity and a moderately restrictive credit policy combined with Treasury efforts to improve the maturity distribution of the Government debt, but the effects were probably much enhanced by growing anxiety in the financial community over the outlook for interest rates.

The stage for the credit squeeze was set by the continued high and rising rate of economic activity in the early months of the year. Investment proceeded at boom levels, and although record savings were being accumulated, bond yields rose somewhat in response to the sustained demands for investment funds. In addition, business requirements for bank credit failed to show the customary seasonal decline. Economic forces were thus operating in the direction of some firming of interest rates.

At the same time, the Federal Reserve authorities refrained from providing additional reserves to the money market. This so-called neutral policy, which was maintained in the face of a substantial outflow of gold in the first quarter of the year, contributed to the pressure upon the reserve position of the commercial banks. As a result, the member banks continued their large borrowings from the Federal Reserve banks, and credit remained tight.

With funds scarce and loan demands high, the leading commercial banks in April raised the prime lending rate from 3 to 3¼%. Shortly thereafter, the authorities took the long-delayed step of raising the rates on FHA and VA mortgages. This action was belated recognition of the change in the level of long-term interest rates and was designed to increase the flow of investment funds into guaranteed mortgages; it contributed to higher bond yields.

In the same period, the Treasury entered the market for long-term funds. The expectation that some short-term debt would be refunded into longer maturities, and that new long-term Treasury bonds would be offered in 1953, had been hanging over the market at least since the beginning of the year, and had probably contributed to the softer tendencies in the bond market in the early months of the year. Treasury officials appeared cognizant of the prevailing uncertainties; their decision to offer a new 3¼% long-term bond for cash subscription in April was preceded by a careful exploration of the prospective market. Furthermore, the new money offering was limited to the modest amount of $1 billion and the terms of the new issue appeared attractive. The announcement of the new issue was well received and the bonds went to a small premium in trading on a when-issued basis. However, the offering led to some downward adjustment in the market prices of outstanding long-term Government bonds.

The enthusiasm for the new issue was short-lived, and was followed by a further and substantial weakening of the bond market. Although the offering was heavily oversubscribed, it soon became evident that many subscriptions had been entered by speculative interests intent on a "free ride" to quick profits. Notwithstanding this fact, the Treasury decided to allot in full all subscriptions of $5,000 or less, and to make allotments to larger subscribers on a flat 20% basis, thus treating institutional investors and other firm buyers on the same basis as subscribers who were eager to liquidate at the first opportunity. Furthermore, the Treasury had offered to exchange nonmarketable F and G bonds maturing in 1953 for the new 3¼s at par, and sales by some holders who had accepted this exchange offering added to the selling pressure. As a result, when the new bonds were issued in May, they were already selling at a discount, and this dealt quite a blow to market confidence.

While all these factors help explain the rise in interest rates and yields in the spring, the crucial element in the development of the credit squeeze was probably in the realm of expectations. In the first place, there was the growing prospect of large Treasury borrowings. Secondly, and probably even more importantly, the market was apprehensive that credit and debt management policies would operate to bring about a progressively higher level of interest rates.

Beginning about April, the Treasury budget outlook began to deteriorate. The realization spread that Federal receipts were not going to live up to expectations, and that expenditures could not be reduced as rapidly as some had anticipated. Consequently, it became evident that the deficit for the fiscal year 1953 would be significantly larger than estimated, and that the Treasury would be required to raise more new money than had been generally foreseen earlier in the year. All this made the financial community highly sensitive to any prospect of a more restrictive credit policy and more aggressive Treasury funding operations.

In this environment, certain pronouncements by the monetary and fiscal authorities injected additional uncertainty into the market place. In April, the Chairman of the Board of Governors of the Federal Reserve System discussed the transition to a free market in Government securities. He reiterated a point he had already made in earlier months, namely that instead of trying to maintain an "orderly" market, Federal Reserve policy should be directed toward correcting "disorderly" conditions. Furthermore, he emphasized that "only very rarely is there likely to be a disorderly situation that would require Federal Reserve intervention for reasons other than credit policy." Probably an even stronger impression was created by remarks made in May by the Deputy to the Secretary of the Treasury, who not only agreed that the Treasury must finance itself in a free and competitive market without Federal Reserve assistance, but also indicated that somewhat more active Treasury competition for private investment funds would be wholesome; while assuring that the Treasury would proceed cautiously, he also asserted that "it should not always be at the end of the queue."

The unsettling effects of these statements cannot be ascribed to any quarrel with the philosophy or goals set forth by the authorities; members of the financial community generally recognized the basic soundness and desirability of these principles. Nor were the convictions expressed by the authorities novel or startling; the Federal Reserve had been moving consistently toward these objectives ever since the end of World War II. Indeed, in December 1952, and again early in 1953, the Treasury had successfully consummated refinancing operations without the support of the Federal Reserve, which fact was widely recognized. However, since these statements coincided with a period of tightening credit and large current and prospective demands for funds, they readily lent themselves to disturbing interpretations.

The financial community was further troubled by certain comments made by the Chairman of the Board of Governors early in May on the subject of member bank borrowings. His observation that "member banks are expected to anticipate normal seasonal requirements and be in a position to meet them by adjustments in liquid assets with a minimum re-

Continued on page 29

*An address by Mr. Reierson before the Annual Meeting of the Savings and Mortgage Division of the American Bankers Association, Washington, D. C., Sept. 21, 1953.

# Objectives of Federal Reserve Board

By J. L. ROBERTSON*

Member, Board of Governors of Federal Reserve System

**Designating the Federal Reserve Board as a trustee, to whom money and credit is the corpus of a trust which must be administered for the benefit of all, Gov. Robertson deplores lack of understanding of efforts now being made to carry out objectives of Federal Reserve System. Refers to criticism of higher interest rate policy, and says credo that underlies Federal Reserve purpose is necessity of maintaining stable values. Stresses chief aim is "greatest good to greatest number."**

Today I would like to talk with you, as one trustee to another, about something that seems very important at the moment; something in the nature of a common trust. There is a close relationship between professional trusteeship and that exercised by the Federal Reserve System. One might even label it a co-fiduciary relationship. The beneficiaries of your trusts and ours overlap. We both are required to exercise care and skill, prudence and sound judgment; we are obligated to exclude all conflicting interests and pressures in administering our respective trusts; we are all subject to the same duty of complete loyalty to the trust.

J. L. Robertson

Money and credit are the corpus of the Reserve System's trust—a trust that must be administered for the benefit of all the American people. How we administer that trust has a tremendous bearing on how you can administer yours and at the same time your activities have a distinct bearing on ours.

Bankers should be more conscious than most businessmen of the contribution of stable values to economic progress. Your unique position of responsibility to both providers and users of a bank's funds — to both depositors and borrowers — points up this relationship. What does it profit the man who builds a savings account in your bank if the buying power of his funds has shrunk substantially when the rainy-day need for them materializes? Similarly, you know firsthand the plight of the borrower who, when economic conditions deteriorate and values decline, faces a far heavier burden in repaying his debts.

You bank officers with trust responsibilities are acutely aware of the vagaries of fluctuating values, because of the pronounced effect which they have upon your ability to carry out the wishes of those who have entrusted their funds to your safekeeping and management. Each of you could draw from your experience in the recent past numerous examples of trust accounts which now fall far short of the original objectives of the grantors because of drastic contraction of the buying power of principal and income.

Your concern with a prevailing economic climate that is conducive to stable values, to a steady expansion of our national wealth, to maximum employment, and to a rising standard of living parallels the primary objectives of the Federal Reserve System. Consequently, you must be as concerned as I am over the widespread misunderstanding—or, perhaps more accurately, lack of understanding—of some of the efforts being made to provide that sort of climate.

### Intelligent Criticism Desired

Let me make it clear at the outset that I do not decry criticism. Freedom to criticize lies at the very base of democracy, and the exercise of that freedom is essential to its preservation. One who cannot accept and benefit from intelligent criticism should not be entrusted with the people's business. Consequently, criticism is entitled to impartial appraisal. Sometimes this is not easy. Knowledge of a critic's past performance may lead one—at times unjustifiably — to overemphasize the source and underestimate the substance.

For example, on returning from my vacation recently, I read one particular blast on monetary policy, and immediately found my mind dwelling on the new "hand" who, years ago, rode a vivacious pacing mule into the ranch on which I was working near Broken Bow, Nebraska. To hear him tell it—and I still can—he was the world's best cowhand. He said that, like the rest of us, he had always ridden horses until the day before when he had picked up this mule, but that no horse could compare with it. He regaled us with its qualifications. And I must admit it was an unusually intelligent and gifted animal—so much so that it soon showed evidence that it wasn't as pleased with its new rider as he was with it. It apparently objected to being ridden by one who seemingly wanted to go in opposite directions at the same time and at an indeterminate speed. It objected to being neck-reined in one direction and simultaneously kneed in the other, to being spurred and checked in the same breath. Its display of dissatisfaction was a tribute to its intelligence and capacity; in fact, it was sufficient to get the rider out of the saddle and cause him to berate the animal in no uncertain terms. He could not say enough bad about the mule. It had, he said, none of the qualities he had previously raved about. So, with the view of satisfying him, we brought in from pasture a young sorrel horse. He bubbled over with praise when he saw it. It was a beauty, smart-faced, small-necked, large-chested, short-coupled, and well underpinned with strong but finely tapered legs. It was the kind of horse he said he had been looking for all his life. But when that horse refused to let him even saddle it, let alone get astride it, he went off mumbling loudly and bitterly about both animals. We suspected he was talking out of personal pique.

Such suspicions must be brushed aside in order to appraise properly and fairly criticisms of monetary policy. When we do so, it is apparent that some of them are based on thorough study, close analysis of information, and reasoned judgment. Those deserve the most careful attention. However, even under the lights of impartial appraisal, others seem to be based on the loose word, the personal pinch, the fears which have been instilled by a vocal few who consciously or unconsciously distort facts for personal gain, or for the sake of appearing wise or striking at a political adversary.

### Monetary Policy Not To Be Used As Political Football

It would be unfortunate if monetary policy should be made the subject of demagoguery or used as a political football, because it is perhaps as important as any single factor (other than war) affecting the economic welfare of the people of the United States. It is unfortunate that the subject lends itself so well to distortion. There is no topic I have ever encountered that is more difficult to grasp—and, even more vital, to deal with effectively — than the problems of money and credit in a modern economy. Unfortunately, too, certain of the superficial and obvious results of monetary policy are apparently bad. But the concentration of one's attention on these phases may result in missing the real values and the real problems involved. Let me exemplify with a bit of recent history.

During the past two years production and employment have been at very high levels. The buying power of the dollar has been relatively stable. Credit has not been so easy to obtain, and when obtained it has cost a good deal more than it did in 1950. Those changes in our financial situation have not been coincidental. Each of the changes is related to the others; no one of them could have happened alone.

Yet there are superficial analyses made constantly, stressing only one aspect: that when public utilities issue long-term bonds, they may have to pay 4% for the money instead of 3%; that when an individual buys a home, the interest rate on his mortgage may be 5% instead of 4%; that when the "big borrower"—the Federal government—borrows for 91 days, it pays for that money at the rate of around 2% per annum—more than twice what it paid a few years ago.

That looks pretty bad! We are told that higher interest rates make it more costly today for a man to buy a home for his family; that taxpayers—you and I—bear a heavier burden because government has to pay millions more in interest every year.

But what about the fact that the man who wants to buy a home for his family no longer has the jitters that come from constantly jumping prices? And what about the fact that the government no longer has to pay billions more every year for the things it purchases, as happened when inflation was swelling government costs? The superficial analysis finds it convenient to ignore those facts, and attempts to conceal the omission with talk about higher interest rates providing a bonanza for "the great corporations and the banks."

You and I are aware of the fallacies in such arguments. We know that the most important single group of "great corporation" investors is the insurance companies, which are simply intermediaries, to a larger extent, between the borrower and tens of millions of insured individuals and beneficiaries—the rank and file of the American people. The "banks," as we all know, will not realize a windfall from the change in interest-rate patterns; in addition to being recipients of interest they are also payers of interest on $60 billion of time deposits, and the percentage return on capitalization of the American banking system has not shown any startling increase as a result of high interest rates.

We also know—even if the detailed reasoning is a little fuzzy in our minds—that today's higher interest rates are in no sense an end in themselves, but are simply, in view of the great volume of demands for credit, an inevitable accompaniment of a very honest effort to re-establish the dollar as a dependable standard of value, with all the resultant tremendous benefits to every segment of our economy.

That is, very roughly, the basic truth of the money-market situation in 1953. We know it, but only because understanding it is our business and we have laboriously thought about it—off and on—for many years. But the American people, generally speaking, do not know about it. It is difficult to present these facts in dramatic—not to say sensational — form, whereas the superficial appeal for tears on behalf of the "harassed taxpayer" or "struggling home owner" is only too easy to present and to comprehend.

Therein lies the task that confronts us: to bring about broader public understanding of the essentials of a very complex problem. It is a difficult task, but a task which we must perform—and right now—or be ready to accept the consequences. As Edmund Burke said: "The only thing necessary for the triumph of evil is for good men to do nothing."

Our task, yours and mine—and I hope the critics will join us in it—is not to try to "sell" Federal Reserve policies and action, but rather to help the American people get what they are entitled to: a fair understanding of what is happening in the monetary field and why, and what the alternatives are. A man who does not know that may be misled by a "tag" applied for prejudicial purposes, a tag such as the "hard-money policy" or the "easy-money policy" or something else. But Americans — knowing the facts and the choices—are not going to be misled by anyone.

### Federal Reserve Monetary Policy

What is the monetary policy of the Federal Reserve System? Its policy—the only monetary policy it has—is to make available all the money and credit the economy needs for normal operation and for healthy growth—but not so much as to induce inflation or so little as to cause deflation. The purpose, in line with the goal Congress has set for the System, is to see to it that boom-and-bust cycles do not arise from money and credit causes, and to moderate cyclical movements stemming from other causes. (In passing, it should be borne in mind that while one must not underestimate the role of monetary policy, he will do well not to exaggerate it, either. Even in economics "money isn't everything." The whole matter of credit supply is only one factor affecting the nation's well-being.)

The credo that underlies Federal Reserve policy and purpose is our conviction that stable values—in the main a dollar that will buy the same amount of goods and services from one year

Continued on page 34

*An address by Mr. Robertson before the 79th Annual Convention of the American Bankers Association, Washington, D. C., Sept. 21, 1953.

# Inferences From Lowered British Bank Rate

By PAUL EINZIG

**Commenting on reduction in Bank of England discount rate from 4 to 3½%, Dr. Einzig holds this action is indication British official circles do not anticipate a slump in U. S. Says it is also calculated to dispose of rumor that British Government intends to restore the fluctuating pound in near future.**

LONDON, Eng.—The reduction of the Bank Rate from 4 to 3½% on Sept. 17 came as a complete surprise. For more than one reason, it was unexpected. Throuhout the first half of September sterling was weak, declining below its parity of $2.80. Wall Street had a sharp fall three days before the Bank Rate reduction; its weakness foreshadowed in the opinion of many people a business recession in the United States. Even though private borrowing from the banks declined the volume of credit increased through the expansion of Treasury Bills. In the autumn seasonal factors are usually in favor of an increase of the Bank Rate rather than a reduction. The inflationary spiral of wages increases was proceeding unchecked, even in the absence of ~~its~~ encouragement by easier money conditions.

Dr. Paul Einzig

Nothwithstanding this the Bank of England considered it expedient to request the Chancellor of the Exchequer to authorize a reduction of the Bank Rate, and Mr. Butler considered it expedient to grant the request. Admittedly to a large degree the reduction was more nominal than real. For the 4% was only applicable to rediscounted bank bills. Throughout the period, while the 4% Bank Rate was in operation the Bank of England was prepared to buy from discount houses Treasury Bills at 3½%. In view of the large holdings of Treasury Bills that rate was regarded as the operative Bank Rate, so that all that happened on Sept. 17 was that the nominal Bank Rate was reduced to the level of the actual Bank Rate. The authorities were at pains to emphasize that the change was purely technical and did not imply in any way a relaxation of the policy aiming at restricting the volume of credit.

Nevertheless, the banks reduced by ¼% their rate allowed on deposits and those charged on certain kinds of loans. Bill rates declined. This should tend to encourage private borrowing to some extent. In particular the effect of the Bank Rate reduction on the market rate of discount should encourage foreign borrowers to make better use of the recently increased facilities for sterling acceptance credits. This may tend to increase the selling pressure on sterling due to the recent relaxation of restrictions on such credits.

If in spite of this the authorities felt justified in lowering the Bank Rate it is because they view American business prospects without pessimism. The American business situation is at present by far the most important factor affecting sterling. Even a moderate recession in the United States would inevitably widen the dollar gap of the Sterling Area and would reverse the inflow of gold. If the British authorities had interpreted the drop in Wall Street as foreshadowing a trade recession of some severity they would not have thought of taking a step which would in such circumstances aggravate the weakness of sterling.

Admittedly, from a purely internal point of view, the classical weapon against a trade recession is lowering the Bank Rate. If the authorities could afford to disregard the international aspects of the situation they would respond to an American trade recession by lowering the Bank Rate in order to prevent the recession from spreading over Britain. Indeed, in order to maintain full employment, they would be inclined to adopt a decidedly inflationary policy to that end. In the existing situation, however, they could ill afford to do so. Unless a fall in the price level in the United States is accompanied by a corresponding fall in British prices, British exports would lose ground not only in the United States but throughout the world as a result of increased American competition. In the interests of defending the Sterling Area gold reserve, Britain would have to deflate in sympathy with the downward trend of prices in the United States in spite of the adverse effect of that policy on British business conditions. The Bank Rate might have to be raised to that end, instead of being lowered.

The fact that the Treasury and the Bank of England felt they could afford to lower the Bank Rate at this stage may safely be interpreted as an indication that British official circles do not anticipate a slump in the United States. It is in fact understood that Mr. Butler received reassuring advice from highly placed official American quarters, and that the Treasury is now satisfied that the Washington Administration has elaborated far-reaching defensive measures against a slump, measures which would be applied unhesitatingly if American trade were to show signs of a serious recession. What the intended measures are is a closely-guarded secret but it is known that official circles in London are satisfied about their effectiveness.

On this basis it is understandable that the authorities should have considered it justifiable to lower the Bank Rate. This gesture is significant also from another point of view. It is calculated to dispose of rumors about the government's alleged intention to restore the fluctuating pound in the near future. As is well known the floating pound is part of the Commonwealth Economic Plan. The Commonwealth Finance Ministers' Conference of 1952 decided to adopt it simultaneously with the restoration of the convertibility of sterling. Now that convertibility is not expected for at least another 12 months, it has been suggested in various quarters abroad that the government is inclined to proceed with the floating pound without awaiting convertibility. Rumors attributing to the government such intentions are understood to be entirely without foundation. The idea has never even been considered by the Treasury. Any lingering doubts about this should be disposed of by the Bank Rate reduction. It stands to reason that the authorities would not go out of their way to weaken the defenses of sterling if they intended to restore its freedom to fluctuate at a moment when such a freedom would mean in any case a depreciating trend.

The immediate response of the Stock Exchange and, to a lesser extent, of the foreign exchange market has been distinctly favorable. The reduction of the Bank Rate is interpreted as an indication of confidence. Although, through its material effects, it should have accentuated the weak tendency of sterling, through its psychological effects it inspired, for the moment at any rate, a steadier tone. This is precisely because the decision is widely regarded as an indication that official circles in London are not afraid of a slump in the United States.

## J. M. Glover Joins Harriman Ripley

Harriman Ripley & Company, Incorporated, 63 Wall Street, New York City, announces that J. Morgan Glover has become a member of the company's Municipal Department. His duties will be concerned mainly with state and municipal revenue bonds.

Mr. Glover, formerly with the National City Company and Brown, Harriman & Co., has for a number of years past been connected with the Office of Loans, Public Agency Division, of the Reconstruction Finance Corporation.

## Maples & Goldschmidt Admits

SOUTH NORWALK, Conn. — Maples & Goldschmidt, 85 Washington Street, members of the New York Stock Exchange, on Oct. 15 will admit Fannie G. Safir and Carrie Goldstein to limited partnership in the firm.

# A Banker Looks at the Current Picture

By CASIMIR A. SIENKIEWICZ*
President, Central-Penn National Bank, Philadelphia, Pa.

**Calling the scene before us a vast and complex economic panorama, Mr. Sienkiewicz reviews important business developments and discusses some phases of banking and credit which will influence policies and practices of bankers in the future. Points out boom is still with us, accompanied by efficiency and an abundance of bank credit, which provides the sinews of economic activity. Notes significant shifts in bank assets and difficulties faced in efforts to increase banking capital. Stresses good management as responsibility of bank directors. Sees no serious recession ahead.**

The scene before us is indeed a vast economic panorama, and its elements are many and complex. To comprehend it and construct a significant composition would take a truly great artist. I must limit my sketch to business and banking.

C. A. Sienkiewicz

First, I shall make comments on some of the more important business developments and outlook. Second, I want to discuss some of the more significant phases of banking and credit, or those vital parts that are affecting our activity now and will influence our policies and practices in the future.

### Business Boom Continues

The business boom continues. Activity this summer has been at the highest rate on record. Industrial production, manufacturers' sales, retail trade, personal income, and employment have been close to the peacetime records. True, here and there new orders have fallen off; inventories are larger than they need be; prices for farm products have softened; and collections have slowed down. We are aware of these symptoms. The overall picture, however, is that our resources are now employed almost at capacity and the maximum of our employable people are at work.

National output of goods and services increased in the second quarter to a record annual rate of $372 billion, or almost 7% above last year. This is a tremendous volume. It provides jobs and income for over 63 million, or over 98% of our civilian workers. The production machine is certainly rolling full speed ahead, and its great momentum is likely to keep us going into next year.

People are buying goods, too. Personal consumption expenditures are running at an annual rate of $230 billion, higher than earlier this year and a year ago. Tax payments have taken $37 billion, or 13% of personal income. But, even so, personal saving continues to exceed an annual rate of $17 billion. Personal liquid assets also continue large.

Gross private investment increased to a $61 billion rate. New construction has continued at a record rate of $25 billion and producers' durable equipment at almost $28 billion. Recently, however, there has been some letdown or deferment of projects of residential and general-construction type. New financing is at a high level, despite uncertainties and postponement of several large offerings.

Government purchases of goods and services, at all levels, increased to $83.5 billion, or 27% of national income. Outlays for national security represent about 14% of total national output.

Corporate earnings in the first half of this year, before and after taxes, were higher than in the same period last year. This increase was due primarily to larger volumes of sales, since the average net profit margin per sales dollar continued unchanged. Increased costs required larger volumes and greater efficiency to make reasonable profits.

Dividend payments by larger corporations have been somewhat better and more widespread than last year. Moreover, in spite of the heavy outlays for improvements to plants and equipment, corporate working capital has increased slightly over a year ago.

All in all, this is an amazing record. The foundation upon which this accomplishment rests has a sound core. It shows that our system of private industry and initiative can do a superb job for a free society. It shows that there are still enough free people who are willing to work and dream and to make their dreams a reality through discoveries and inventions of new methods and new products for the use of man. It shows that we are still willing to save and invest to keep our industrial concern going with the best modern equipment we can find.

Back of this record is good organization and courageous management. It reflects great strides in better cooperation and understanding between labor and management. Both are beginning to realize that efficient production and fair exchange of goods and services are the real forces that make our free economy tick and help to sustain our high standard of living.

Our individual and combined energies are now dedicated to the search for peace, order, and stability of life. We hate war because it destroys life and property. It leads to oppressive debt and taxes. It is in peace that we create what is finest in life—material and spiritual.

### Correction Need Not Mean Business Recession

The Korean truce has often been singled out as the beginning of the end of the business boom mainly because government expenditures are likely to decline and so depress our activity. But the impact of the truce has been discounted long ago. Our defense program may be changed in form but not in substance; it must go on in one form or another because we want this country to continue strong. World tensions are unabated, and genuine confidence among nations is still lacking.

As a leader in this atomic age, the United States cannot afford not to have adequate protection against sinister ideologies and unjust assaults on our heritage and peaceful intentions. Until the language of force is subdued, we must be ever ready to meet any cynical challenge.

No one will deny that as always there are some clouds on our economic horizon. We must watch these clouds and take steps to remove them whenever necessary. For example: How fast are we piling up our stocks of goods? At $77 billion our inventories at manufacturing, retail, and wholesale establishments are some $5 billion higher than they were a year ago. This rise, of course, accounts for a goodly portion of the increase in our national output. It also suggests that any drop in sales would throw the present relationship out of balance; it may mean, in fact, a cutback in production and decline in employment.

Any setback would be disconcerting, even if it lasted but for a short time. But, as in the recent past, the way would be cleared for a more stable relationship after the correction. Equally disturbing would be its effect on the consumer's buying attitude. He would probably curtail his purchases and add to his savings, as was the case some months ago. The current behavior of the stock market is probably an indication of the readjustment anticipated in the closing months of this year and the first quarter next year.

Occasional bumps in a free, active economy are bound to occur; but if bold steps are taken with intelligence and promptness, larger excesses can be avoided. We are aware of all unbalancing symptoms, and this very awareness is probably the best means of preventing serious economic repercussions. We may not be able to eliminate business ups and downs entirely, but we may be able to minimize their severity and abate the cyclical fears of boom and bust.

### Bank Credit Provides Sinews of Economic Activity

Back of our past and recent accomplishments has been the abundance and efficiency of bank credit. It has furnished the sinews of business action. Without it, our modern system of production and distribution could not attain the heights that it has since the Civil War.

The present high level of production and employment certainly reflects the capacity of our banking system to provide funds for business operations. Loans of all commercial banks to business at present exceed $65 billion, or almost four times the volume before the last World War and two and one-half times what it was at the end of that war. It is this credit, mobilized by private sources and extended to private production channels, that sustains our free and expanding economy and provides job opportunities for our growing population.

Our banking system administers this tremendous volume of credit with amazing efficiency. Every business day individual bankers everywhere make innumerable decisions and assume varied risks. By far the largest number of loans are to relatively small, individual borrowers who make up the vast army of some 3 million economic units in our system.

Recently, many more millions of individual consumers have entered the banking portals and found helpful means in bank credit to acquire property and advance their living standards. We have learned to serve them and our experience has been good. The inherent honesty of business and individual producers and consumers makes effective banking possible.

Bankers, of course, must assume heavy responsibility for their decisions and acts. They occupy a strategic and sensitive position in our industrial society. This position exposes them to constant public scrutiny and frequently to unjustified attacks.

Bankers often are excoriated for their conservatism, lack of vision, or cupidity, depending upon the source of censure. Some politicians, many promoters, and hosts of do-gooders and crusaders of untried notions and panaceas are quick to strike at the bankers because they cannot get the funds for their dubious projects or because the attack serves some ulterior purpose or gain.

Such critics either fail to realize the fiduciary responsibility of bankers to their depositors; or, in their excessive zeal for social justice, would lay their hands on the savings of the industrious, thrifty people who entrust them to the banks for custody. The bankers have learned how to protect these funds; they have learned bitterly what it means to violate the trust that the people repose in them. Their custody is indeed awesome, and its fulfillment demands unimpeachable fidelity, unerring judgment, and utmost skill in administering the funds. They must be conservative, firm, and practical in their decisions and acts.

Recently, a gamut of discordant notes and animadversions have come to us about credit tightness and high interest rates. The story of credit tightness and higher interest rates is the story of war financing and economic dislocation, of inflation, of dependable money and its buying power. Our recent record gives us a clear picture if we look at it squarely and honestly.

World War II was incredibly costly. We borrowed a lot of money and created large new supplies of money. At the end of that war in 1945, the total volume of currency and checking deposits was one and one-half times as large, relative to the current value of gross national product, as in 1939-1940 when liquidity was already on the increase. Other liquid assets expanded at about the same rate, so that the accumulated amount of spendable funds was truly enormous. Even though our productive plant was running at capacity, we could not produce fast enough to meet the pent-up demand of the market. Consequently, with the abundant supply of funds on the one hand and the shortage of goods on the other, prices for the available supply of goods were bid up, and inflation followed with its usual devastating effects, particularly on those whose incomes continued fixed.

Production in the meantime was increasing and would have caught up with demand. But inflation was not permitted to die down; it was perpetuated; and prices, wages, and costs continued to skyrocket. The most important perpetuating force was the official policy to maintain credit easy and money "cheap," primarily in the interest of Treasury financing and debt management. Such a policy may have been appropriate during the war, but never under the inflationary conditions that followed the war. It saved pennies in debt service charges but entailed social losses in the billions through the depreciation of the value of the dollar.

The policy of easy credit was sustained primarily through the official support of bond prices and the encouragement of mortgage loans. The Federal Reserve, with reluctance, bought government securities to maintain their prices and uphold the fixed pattern of interest rates in line with Treasury policy. As it did this, it released large amounts of bank reserves, or high-power money capable of expanding deposits or credit five or six times.

Moreover, the practice of pegging prices of government securities, in effect, guaranteed the prices of securities held by the investors. It was easy for the banks, as for others, to buy government securities and sell them, usually at a profit, in the controlled market. When more profitable loan and investment opportunities appeared, government securities were sold usually to the Federal Reserve at fixed prices and without loss.

This anomalous policy and prac-

*An address by Mr. Sienkiewicz before the Annual Meeting of the National Bank Division of the American Bankers Association, Washington, D. C., Sept. 21, 1953.

tice were kept up until March, 1951, when the great harm of this procedure was recognized. It was also recognized that the prime responsibility of our central banking system is not to manipulate bond prices in one segment of the economy, but is to assist the economy as a whole in maintaining orderly conditions, high employment and income within its means and influence over the supply and cost of credit. The problem of sustaining sound money and relatively stable buying value of the dollar is an integral part of this influence because it facilitates economic growth and protects all of us—producers, savers, and consumers. Finally, it was recognized that to do this job well the Federal Reserve must have independence of action and freedom from political interferences.

Gradually, the procedure of pegging bond prices was modified and finally abandoned. We now have comparative freedom in our money market, as in other markets. Interest rates have become flexible, determined by demand and supply forces. Securities, public and private, now are being tested as to their value and price in the crucible of the market. This process is in harmony with the spirit and form of our institutional setting.

Federal, state, and local governments now are competing with business for available funds. The supply of these funds has been less than the demand for them. The price of money, or interest rates, has risen, as is to be expected. The upward trend of interest rates since the war has been noticeable not only at home but in most other countries that still have freedom of choice and action. Only totalitarian countries deny this freedom and control the economic life of their people with an iron hand.

Higher interest rates, of course, mean lower bond prices. Since the official control over bond prices has been removed, government securities have shown substantial depreciation. Many banks that hold large amounts of governments in their portfolios do not like it because of possible capital losses. Ironically enough, some critics of the change refuse to recognize this possibility and continue to carp on the avarice of bankers as if they were responsible for higher interest rates, even though these rates are still relatively low considering the present stage of the business cycle.

While inflationary forces seem to have subsided, we are not quite sure that we are out of real danger. Our economy at the moment is in a state of uneasy balance. One set of factors—rise in consumer prices, decline in farm income, drop in the stock market—suggests deflationary readjustment. Another set of factors — record employment, production, income — indicates inflationary strains.

The impelling fact is that we have no secure peace. Outlays on national security may revive inflationary forces at any time. We must be prepared for this eventuality, just as we must anticipate and be ready to cope with any serious business setback. Our major restrictive credit policy during the past year has been in the interest of the public. Its reacquired flexibility should mean readiness to meet changing conditions from now forward.

Looking at this picture broadly, we must recognize the fact that the Reserve System, however independent in its policies, cannot ignore the overwhelming problems and demands of the Treasury. Neither can it ignore the demands of business and the need of our growing population to have jobs and income. In using its commanding powers over the supply and cost of credit, it must be discreet, impartial, and courageous. All of us must appreciate the enormity of this responsibility and give support with wisdom, candor, and the spirit of public service. We all are in the same economic boat.

**Significant Shifts in Bank Assets**

World War II wrought great dislocations in business and finance. It produced significant shifts in bank assets.

You will recall that to meet the financial needs of that war the Federal government had to raise some $383 billion. Of this staggering amount, $169 billion, or almost 40%, was provided by taxation, and $214 billion, or over 60%, had to be borrowed. Nonbanking investors loaned $128 billion, while commercial banks and the Federal Reserve Banks furnished $86 billion of borrowed funds. The war had to be won; and in the winning, our whole economic and financial life had to be rearranged from peaceful pursuits to destructive purposes.

It was the borrowing from the banking system that meant the inflationary creation of money and the consequent disruption of our economic relationships. Money supply rose from 45% to almost 75% of national income. This was inflation in its most destructive form because when various arbitrary controls were removed, prices skyrocketed and the effect on those in the fixed income groups was truly impoverishing.

In a period of about six years, our volume of money supply, measured by currency and adjusted demand deposits, expanded from $36.2 billion in 1939 to $102.3 billion in 1945, or almost three times. Holdings of government securities by commercial banks increased spectacularly from $15.6 billion to about $90 billion, or 5.7 times. In addition, the Federal Reserve System increased its holdings of governments from $2.5 billion to $24.3 billion, or almost 10 times. Bank loans also expanded from $16.9 billion to $25.8 billion, but most of this increase was to enable the investors to buy government securities.

What this change meant was that our entire banking system was turned over from a system of lending money to business and individuals to a system of investing institutions. Moreover, the magnitude of financial figures was so blown up that former more modest patterns completely disappeared and new models were established.

Immediately after the war, strenuous efforts were made to readapt banking and credit operations to the new level of inflated figures. These efforts were interrupted somewhat by the outbreak in Korea; but the banking system as a whole was not greatly

*Continued on page 26*

# Progress in Agriculture

By HON. EZRA TAFT BENSON*
Secretary of Agriculture

**Asserting it is apparent present farm programs are inadequate, Secy. Benson lists eight guides in formulation of future farm policies. Says nation depends upon bankers to assist farmers in making their adjustments, and warns against aiding speculation in farm lands. Praises work of ABA Agricultural Commission, and urges bankers give time and assistance to rural young people to strengthen the agricultural economy.**

This is a bountiful nation, a choice land. We pride ourselves on our achievements. We build cities, big industries, vital financial institutions. We produce immense quantities of goods, including bountiful supplies of food and fiber.


Ezra Taft Benson

Our economic order is better by far than that of any other nation. The fundamental reason is that our economy is free. Our economy must remain free, for in our free enterprise system lies the basic economic strength of the American people.

In recent years our thinking people have become more and more concerned about the rapid trend toward government ownership. It is generally agreed that there is danger in the undue concentration of power in the Federal government. Too many Americans are calling on Washington to do for them what they should be willing to do for themselves.

It is an old American principle that we should leave to private enterprise the jobs that private enterprise is able and willing to do. This principle was espoused by our President in his campaign last fall.

It is high time we had this awakening to the dangers of excessive governmental adventures in business, too great centralization of power, and undue dependence on public assistance. In our agricultural policy we seek to counteract this dangerous trend.

We believe in short that the principles of economic freedom are applicable to farm problems.

### Inherited Problems

Since we took office we have had to deal with many serious problems. We did not create them; we inherited them.

We inherited falling farm prices and declining farm income. Farm prices fell from 113% of parity to 95% of parity in the two years before last January. Since then, farm prices have averaged 93 or 94% of parity every month. We have checked the price decline.

We inherited falling beef prices, declining foreign trade, excess stocks of cotton, wheat, and corn. Moreover, we have had to cope with a severe drought. We have attacked all these problems decisively—and our actions are bearing fruit.

### Present Program Inadequate

It is quite apparent to all of us that present farm programs are inadequate.

(1) They are inadequate because they do not build markets to put products into use at fair prices;

(2) They are inadequate because they do not permit desirable adjustments to take place in our farm economy which will place the farmer on a sounder footing;

(3) They are inadequate because they fail to provide sufficient incentive for self-initiative and self-help upon the part of the grower, the handler, the processor, and the end distributors;

(4) They are inadequate because they do not encourage the best use of our agricultural resources;

(5) They are inadequate because at times they price such commodities as wheat and cotton out of world markets, and dairy and other products out of domestic markets;

(6) They are inadequate because they tend to hold a price umbrella over synthetic and substitute products which in turn take over our farm markets.

Plainly, a new program is needed.

### Essential Requirements

As guides in the formulation of future farm policies, I believe the following are essential:

(1) The program must provide for a constantly improved farm economy.

(2) It must fully protect the farmers' freedom of choice.

(3) It must be in the farmers' interest.

(4) It must be in the public interest.

(5) It must be financially practical. If it is not financially practical, it will fail. Remember the potato fiasco?

(6) It must be geared to use rather than storage — build, not destroy markets.

(7) It must solve problems, not create them.

(8) It must square with American principles.

The only program that can long succeed is one that is oriented toward sound objectives, that is workable, and that has the support of farmers, and all citizens represented by the Congress.

Our entire economy is in the process of adjusting itself to changed conditions.

In the past two decades we have passed from depression to war, to peace, to war again, and now we are in a period of neither peace nor war. The adjustments to a peacetime economy must be met by all economic groups: industry, labor, agriculture, and finance. We must all work together to make the change orderly and easily.

### Admonition to Bankers

We depend greatly upon bankers to assist farmers in making their adjustment. You hold one of the keys to the door of agricultural prosperity and security. We look to you for thoughtful and constructive action in fulfilling your vital role.

Stay with your farm customers, even when weather or economic conditions make debt repayment less favorable. Many farmers who have recently entered agriculture and contracted large debts are finding it more difficult to repay loans now than when farm commodity prices were rising. Both banker and borrower need to plan carefully in meeting the adjustments that have arisen because of drought and lower farm commodity prices. Bankers for the most part have continued to carry their farm borrowers and have gone to the limit in taking care of their recurring credit needs. I am sure you realize the necessity of meeting these credit requirements to maintain a sound agriculture.

The prospects for agriculture are good. Employment is at an all-time high. The farm balance sheet is extremely favorable. Population is increasing steadily, providing larger markets for the future. Our people want good diets, even better diets than now. The rural banks are faced with a wonderful opportunity to strengthen our rural economy.

Bankers can play an effective role by encouraging sound conservation and soil-building programs on the individual farms and ranches in their local communities. Credit programs to support sound soil improvement practices have paid good dividends in the past and will continue to do so. Credit plans designed to help farmers change over to a diversified, better balanced farming pattern are urgently needed in many areas.

Livestock production, especially where farmers are embarked on a program of pasture development, can be greatly aided by wise lending practices. One of the big problems right now is the balancing of livestock numbers on the individual farm with the production of feed on that farm. I urge you to give guidance to your farm clients in planning for balanced livestock and crop production as a means to increase income and financial stability.

### Discourage Land Speculation

Now that land prices have leveled off, it is doubly important for farmers and bankers alike that speculative land loans continue to be shunned. That you have done this in the past is a source of our present strength. I urge you to continue to discourage borrowing based upon the expectation of abnormally high or dising farm land and commodity prices. The real value of farm and ranch land depends today, as always, on its relative ability to produce income year after year. It is more necessary today that it has been for some years that farmers accumulate and safeguard sufficient financial reserves.

Wherever it is feasible, country banks have much to gain through outside-the-bank agricultural activities conducted by full-time employees trained in agriculture. I understand that hundred of banks are now operating such programs.

I am gratified to learn also that many state bankers associations are sponsoring credit schools in cooperation with their colleges of agriculture. Surely this is a sound move to foster better understanding of agricultural problems. It will promote the welfare of all our people, farm and nonfarm.

As you know, the farm credit system is again to be independent. This is in fulfillment of a pledge President Eisenhower made in Omaha last year. The legislation providing for greater farmer participation in the ownership and control of the farm credit system was signed by the President on Aug. 6. We are happy to see the credit system move back closer to farmers.

### Goals of ABA Committee

These aims that I have mentioned are, I know, in close agreement with the goals set up by the Agricultural Commission of the ABA. They are extremely important aims, not only for farmers and bankers but for the whole country. In this period of adjustment through which every element of our economy is passing, we need the fullest measure of mutual understanding and cooperation. We, in the Department of Agriculture, will not be outdone in extending a cooperative hand to all elements of our economy for the welfare of the entire nation.

We have been talking about material things, but you and I know that material possessions are not our greatest asset. The greatest wealth we have in this country is our youth—our boys and girls—the future leaders of this choice land.

Give some time and assistance to the young people.

I am most happy to know that so many bankers are making it their concern to work with our young rural people. I was pleased to notice in the "Bankers Monthly" some months ago an article by my good friend Jesse Tapp, in which he paid kind tribute to the National 4-H Foundation and urged bankers in every state to take part in the Foundation's financial program. Continue to encourage thrift, for this is one means to help agriculture on a solid financial footing.

The rural banks of America are favored with a wonderful opportunity to strengthen our rural economy. I commend you for the job you have done in the past.

Our desire is to work with you, and to place upon your shoulders as much as possible the responsibility for financing the farm programs.

*Summary of address by Secretary Benson before the 79th Annual Convention of the American Bankers Association, Washington, D. C., Sept. 22, 1953.

## Construction Contract Awards Remain High

Construction contract awards set forth in "Dodge Reports" for August in the 37 eastern states continued strong following July's top record for the year thus far. A month ago Dodge said that if the monthly total for the last five months could average $1,414,751,000, the year's total would tie record-breaking 1952. The August total was $1,414,408,000, an infinitesimal percentage under that average.

But August was 21% less than the July figure, although only 2% less than August 1952. The eight-month total is now $11,115,588,000, up 4% over the first eight months of 1952. Last month it was 5% at the seven-month stage.

F. W. Dodge Corporation, construction news and marketing specialists who issue "Dodge Reports," pointed out that while the August figures seem low in comparison with the swollen July totals, it is significant that they held their own against the averages. A mid-year decline had been expected and seemed to have started in June until July went sharply up.

By classifications the August totals were: Nonresidential, $545,851,000, down 29% from July but up 5% over August, 1952; residential, $507,560,000, down 22% from July and down 19% from August, 1952; heavy engineering (public works and utilities), $360,997,000, down 4% from July, but up 24% over August, 1952.

Individual eight-month 1953 totals compared with eight months 1952 were: Nonresidential, $4,262,275,000, up 13%; residential, $4,419,463,000, down 4%; heavy engineering, $2,433,850,000, up 4%.

*LETTER TO THE EDITOR:*

# Shull Replies to Philip Gans on Gold Price

**Takes exception to statement that reasons he expressed for keeping gold at $35 per ounce are "irrational."**

*Editor: Commercial and Financial Chronicle:*

The opening sentence of Mr. Philip Gans' letter to the "Chronicle" (Sept. 3) gave me quite a thrill, quickly offset by its closing words. The sentence reads: "It is always interesting to read Mr. Shull's letters on why the price of gold should be $35 an ounce—they are so irrational." On carefully reading Mr. Gans' letter, however, I am strongly reminded of the old saying of the "pot calling the kettle black." Let's try to discover just who is really the "irrational" one in this case:

Frederick G. Shull

No informed person will question the correctness of my statement that "if the price of gold were to be raised, all of us would suffer a very heavy loss"; for you can't "raise" the price of gold without its automatically "lowering" the value of the dollar, itself; and you can't lower that "value" without causing all owners of dollar-assets to suffer loss—"a very heavy loss" in the aggregate.

Mr. Gans asks: "Is he (Shull) deluding himself that the dollar is of the same value today as it was in 1940?" The answer is: No, there is no delusion, whatever, in that view; for the dollar has never changed in "value" since it was set at $35 an ounce, in 1934. To be sure, the "purchasing power" of the dollar has shrunk, due to a combination of causes—the most outstanding of which was the ruthless "devaluation" of the dollar in 1933-34—and which, it is quite evident, Mr. Gans would like to see repeated. Back in Civil War days, "wheat" rose from $1 a bushel to $4—due to the economic law of "supply and demand"; but the dollar never deviated from its "value" of $20.67 an ounce of gold. In other words, it was the "purchasing power" of the dollar that had temporarily shrunk—not the "value" of that dollar.

Mr. Gans admits being in favor of "going on the Gold Standard," adding, "but imagine if we were to do this, what would the results be." We regret that he didn't favor us with a "rational" explanation of just what "results" he had in mind, instead of leaving his readers to do the "imagining."

The next few points elaborated in Mr. Gans' letter are largely matters of "value" versus "purchasing power"—which we have already dealt with, herein.

As to his fear that we haven't sufficient gold "in Fort Knox" to support a true gold standard—history can supply a very good answer: When we returned to the Gold Standard in 1879, following the "greenback" era, there was $347 million of that paper-money in circulation; and there was only about $130 million in gold in the U. S. Treasury. There were "doubters," predicting dire consequences, at that time; but the law re-establishing the right to exchange paper-money for gold, at the face-value of the paper, went into effect on schedule; and the demand for "redemption" in gold was so light as to occasion no strain, whatever, on the Treasury—the people wisely choosing to keep their money in the bank, at interest, rather than "hoarded" as gold, at no interest. Today we have a considerably higher ratio of gold to circulating-currency than in that earlier period—$22 billion in gold, as against $30 billion in currency; and to say we haven't sufficient gold to restore the dollar to the "honesty" of the Gold Standard, is to be very "irrational," indeed.

While expressing his approval of getting "back on the gold standard"—with which we fully agree—Mr. Gans says, "before we do, let us revalue the price in keeping with today's price structure"; but he names no specific "price." Let's assume he favors $70 an ounce—which is the "irrational" price being strongly urged by producers of gold, and others. That, of course, would, automatically, drop the "value" of the dollar from its present 1/35th of an ounce of gold to 1/70th of an ounce—a loss of 50%. Gold being the one commodity recognized by the world as a whole, as the best measure-of-value yet devised by man—it would be interesting to have Mr. Gans' answer to this question: Would the average person be any better off with $70, each dollar worth 1/70th of an ounce of gold, than he is with $35, each dollar worth 1/35th of an ounce of gold?

As Mr. Gans says: "Ironically enough, only the central governments of Foreign Nations can obtain gold at the low price ($35), . . ." But lowering the "value" of the most highly-prized currency in the world today—the American Dollar—is not the proper solution. The best solution would be for the voters and taxpayers of this nation to demand prompt action by the Administration in rendering effective its 1952 campaign pledge to restore our currency to "a dollar on a fully convertible gold basis"—to the Gold Standard, with the "value" of the dollar firmly fixed at $35 a fine ounce of gold. Such forthright action by the Administration will do more to restore confidence and prevent further "inflation" than all other economic devices lumped together.

Very truly yours,
FREDERICK G. SHULL
Connecticut State Chairman
Gold Standard League

2009 Chapel St.
New Haven 15, Conn.
September 25, 1953.

## Opens New Office

George A. Searight, member of the National Association of Securities Dealers and of the Security Traders Association of New York, has announced the opening of a new office at 115 Broadway. E. S. Martin and Karl G. Berg are associated with Mr. Searight.

*Continued from page 23*

# A Banker Looks at the Current Picture

affected by this event except for a violent, short-lived price inflation, which was superinduced by frightened consumers and businessmen. Faced with the possibility of a third World War, they rushed to buy everything in sight to protect themselves against shortages. The large amount of liquid assets on hand enabled them to create a substantial disturbance in spite of the fact that our plant capacity and skill were ample to meet the requirements of the Korean War and those of the consumers. But the impact on the banking structure itself was of no great consequence. It was the original blow of World War II that has cut volcanic craters in our social life.

In spite of dismal predictions of depression and unemployment, the forces of our economy were quickly rearranged and redirected so that our productive activity turned up early in 1946 and has been going up ever since. Commercial banks also have met this changeover. They gradually have ceased to be investing institutions and again have become lenders to business and individuals.

Bank loans expanded rapidly from $26 billion at the beginning of 1946 to a large volume of $65.5 billion in June, 1953. Their holdings of government securities, on the other hand, have declined steadily from $90 billion to $58 billion. This does not mean that the national debt is declining; on the contrary, if anything, it has expanded further as the present difficulty in balancing the budget certainly indicates. Nor does it mean that the banking system will go back to prewar amounts of government securities in their portfolios. A substantial part of the national debt will not only continue in bank portfolios, but banks must also be prepared to assist the Treasury in managing the public debt, particularly in refinancing huge maturities—almost $8 billion 5 of these are due within the next 12 months.

Changes in the structure and pattern of assets by classes of banks indicate a special significance. In 1952 the proportion of loans to loans and investments at central reserve city banks roughly was about 50%, while at country banks it was only 40% and at all national banks it was 45%. In 1945 these ratios were about 25% for the larger banks, 16% for country banks, and 20% for national banks. When we go back to 1929 and earlier years, of course we find that the proportion of loans to loans and investments was at or well over 70%.

The proportion of total investment naturally gives us the opposite relationship. At central reserve city banks, the ratio in 1952 was 47%; at reserve city banks, 52%; at country banks, 60%; and at all national banks, 55%. In 1945 these ratios were: for larger banks, 73-79%; for country banks, 84%; and for national banks, 80%. Holdings of government securities by all banks in both years constituted by far the greatest proportion of total investments—about 90%. In 1929 securities made up less than 25% for larger banks, 33% for country banks, and 30% for national banks.

What this analysis shows is that the larger banks in larger industrial cities have moved into the lending business faster than the so-called country banks. More than one-half of their assets at present are in loans, while assets at country banks are still about 60% in securities, chiefly governments, and only 40% in loans. Because of the heavy market depreciation, especially longer term governments, it is extremely difficult to switch from investment to lending without taking substantial capital losses. This condition in turn affects bank earnings directly because the rate of return on securities is much lower than that on loans.

This is not to say that the current ratio of earnings at country banks is not as high as at larger banks; on the contrary, in some instances it is even higher. But this is due largely to the character of their loans—mainly long term mortgages bearing relatively high rates of income—and to the fact that their securities are of longer maturities yielding higher rates of return.

The character of loans at larger city banks has become increasingly diversified. Many of them no longer fall into the old grooves and classifications. Many so-called commercial loans are of semi-capital nature in the sense that they are not paid out of the proceeds resulting from the seasonal conversion and marketing of goods but continued on the books over longer periods through constant renewals, with some reductions or even total repayments but only by borrowing from other banks—a practice to be watched by scrutinizing the borrowers' financial positions.

Term loans, secured by real estate, mortgages and ground rents owned, chattel mortgages and conditional sales, and leaseholds as in the case of gasoline stations and chain stores, are in the nature of capital loans and constitute intermediate bank investment, if they are amortized within 10 years or less, as is usually the case.

Perhaps the most spectacular expansion since the war has occurred in loans to individual consumers. The total volume of consumer instalment credit has increased almost five times—from $4.2 billion at the end of 1946 to $20.9 billion at the end of July, 1953. Commercial banks in July had about 42% of these loans or $8.7 billion, which was close to 14% of their total loans. This was an increase of almost 460%, or five and one-half times since 1946.

The expansion of this magnitude in consumer credit has created much concern in some quarters. It is feared that in the event of a serious business letdown or recession, incomes will decline and consumers will be unable to meet their obligations. It seems to me that this fear is based largely on rationalization rather than experience. The facts certainly indicate it to be the case.

In the first place, it is unrealistic to make comparisons with the volumes during the war or immediately after it. The figures in that period were very low, and any contrast of the present figures naturally gives an exaggerated comparison. During and for some time after the war, durable consumers' goods were not available for purchase; but what was available could be readily bought by the consumer with large amounts of cash he had on hand as a result of increased income during war activities. But, with the end of the war, goods began to flow to the market which was hungry to fill up the deferred demands. An increasing number of new families needed equipment to stock their homes. Equipment in old homes had to be replaced. New automobiles began to roll off the assembly lines; they were greatly needed because few of them came on the market during the war. This was the beginning of the rapid growth of consumer credit, and commercial banks recognized their own market potential in financing time purchases of consumers.

In the second place, large as the dollar volume of instalment credit appears to be, it is only about 9% of total personal income after taxes. This is about the same proportion as it was in the late twenties, when the dollar figures were much smaller. The proportion of buying on instalment thus has caught up with but not distorted the former relationship to total expenditures by the consumers.

Finally, past experience shows that in time of any serious setback in economic activity, the liquidation of consumer instalment loans goes on much more effectively than in the case of other types of credit, but that the demand for new instalment credit declines drastically. Consumers curtail their buying and borrowing. For that matter, commercial borrowers also cut down on their borrowings, as their business volumes drop. Reduction in the demand for bank credit thus aggravates the situation, and the banks are helpless as they cannot extend where there is no demand for it.

Some would have our credit authorities control the volume of instalment credit at all times to prevent its overextension. We have made two attempts at such a control—one during World War II and the other shortly after the outbreak in Korea. Both turned out to be rather unhappy, and both were abandoned.

The basic reasons for this abandonment were: (a) the requirement of certain down-payments and maturities proved to be a better regulation of trade practices rather the selective control of credit; (b) the administration of the regulation was cumbersome, and the enforcement of its violations was wellnigh impossible without setting up elaborate machinery and a large corps of Federal agents; and (c) purchasers and producers objected to the regulation so vigorously that Congress finally cancelled the authority for this control, thereby restoring a free market for consumers' goods.

The merits of controlling credit in specific areas of economic activity, such as instalment purchases and real estate, have been extensively debated. There is, at present, little use in rehashing the arguments. In a free economy and its markets, all specific and direct controls are distasteful to the people. Without full acceptance and cooperation of the people, no controls or regulations can be effectively enforced.

It seems to me that the existing general control powers over bank credit are adequate to influence all types of situations. Broadly, these powers deal with the availability and cost of credit. The Federal Reserve authorities can expand or contract the volume of bank credit through open-market operations and changes in bank reserve requirements. They can also tighten or relax the control of credit by changing the discount rate. The exercise of these powers affects all banks. Unless banks have adequate reserves, they cannot make loans of any type; and their customers soon find it out. We are going through just such a period right now. The general credit powers of the Federal Reserve System have been very effective indeed, as all of us well know.

**Rise of Credit—Rise of Debt**

The great monetary and credit expansion during and since the war also has raised some searching questions about our total indebtedness and its burden on the economy. Its magnitude is truly colossal. The private and public debt now totals about $640 billion, or close to $4,000 for every man, woman, and child. It is more than twice as large as our national income this year.

The Federal public debt on Aug. 31, 1953, exceeded $273 billion as compared with the postwar low of $255 billion in June, 1951, and the war high of almost $279 billion at the end of 1945. The total private debt since the war more than doubled, rising from $155 billion to an estimated $330 billion. Obviously, this is an enormous rise of our total national debt which was made possible through our large resources and an efficient banking and credit mechanism.

Some of us are alarmed by this expansion, while others are prompted to make a more sober analysis of its true meaning. But all of us recognize the significance of the swollen debt for banking and business.

In spite of its magnitude, the total debt in relation to national income does not appear to be out of line with previous records, except for the last World War. Virtually all of this debt is internally held, so that there can be no sudden heavy drain on our resources from abroad. Barring another major war and inflationary excesses, the present volume of debt seems to be manageable and digestable if we can keep our economy and income going in high gear.

The management of the public debt is rapidly improving after years of ineptitude and bad planning. We are attempting to spread out our maturities in order to reduce the present inflationary volume of short term or floating debt. We are making strenuous efforts to balance the budget and, next, to build annual surpluses in order to begin reducing the debt as we should to lessen its burden and to prepare ourselves for any unforseen emergencies. To service a public debt of the size we now have and to meet defense requirements means large tax revenues, and therein lies the real burden for individual and business taxpayers. It goes without saying that our taxes must continue at high rates if we are to service the debt properly and make the necessary provisions for its gradual reduction. There is no escape from these stern requirements.

The volume of private debt was at a relatively low level at the end of the war so that the rate of its expansion since then is greatly overstated, particularly in relation to overall productive activity. But business and individual borrowings could be disturbing if they should expand faster than the total economic activity or ability to repay these borrowings. If credit is properly used and related to the legitimate needs of business, it sustains the economic growth, enlarges job opportunities, and makes higher living standards possible. If loans are efficiently administered and liquidated in a systematic manner, there should be no cause for serious concern, let alone alarm, because of the rate at which our credit has expanded since the war.

Perhaps the most disconcerting feature of the private debt structure has been the continued disproportion of business equity financing. Even though rising slightly, the average ratio of common stock flotation to all new capital issues since 1946 has been only about 13%. Such a small proportion of equity financing means that our business is building inflexible debt service charges that may be unduly burdensome in the event of any prolonged business recession. Whatever the temporary advantages of debt financing, it seems to be a dubious policy not to seek proprietary or risk capital and thus achieve flexible positions to meet the uncertain future. In the changed political climate, it is hoped that sound business financing will be resumed shortly and continued in the future.

With a relatively stable price level; orderly production and marketing of goods; absence of undue speculation in inventories, real estate, and the stock market, as in the 1920's; high incomes and reasonably even purchasing power of the dollar, the large amount of private credit now outstanding should support good business and maximum employment—the goal which we all want to reach and maintain.

Finally, our national wealth, in real terms and current prices, has increased more than the debt. Private financial positions of consumers and businesses, while less liquid than a little while ago, continue strong. If the economy is to grow, we should expect even further growth in private debt or credit. The secret of this growth lies in prudent handling of credit by the lenders and the capacity of the borrowers to liquidate their obligations. Under this condition, a growth of credit or debt need not signify any serious threat to economic stability; on the contrary, it should indicate the economic growth potential and prosperity.

### Tensil Strength of Banks

Commercial banks generally have emerged from the last war strong and in a good position to meet the demands of their customers. Their assets on the whole are of high quality. Most of their investments still are in the obligations of the United States Treasury. A goodly proportion of their loans—estimated at $10 billion or about 15%—are wholly or partially guaranteed or insured by the Federal Government. The Federal Deposit Insurance Corporation insures a maximum of $10,000 for each depositor in an insured bank.

But most important of all protections is the existence and assurance of the Federal Reserve System. As "lender of last resort," under modified provisions of the Federal Reserve Act, the Federal Reserve Banks provide broad discounting facilities so that under stress member banks can obtain funds against any sound asset that they may hold and meet the demands made upon them. As now constituted, the Reserve System provides a great credit bulwark against the uncertain future. Many of its parts can be and should be improved, but its unique framework, independence, and philosophy should be vigorously guarded.

The foundation of any commercial bank, of course, lies in its capital structure—capital, surplus, undivided profit, and reserves. Total capital accounts of all commercial banks on June 24 this year were estimated at $13.2 billion, or over 8% of deposit liabilities. These accounts have grown substantially in the past 14 years, chiefly from the retention of profits, but their growth has not kept pace with that of other factors.

While total capital funds increased 91% between 1939 and 1953, deposits expanded 181% and loans and investments 237%. Consequently, the relationship of capital to deposits and earning assets has declined. Similarly, the ratio of capital funds to total assets has fallen from 10.3% in 1939 to 6.7% at the beginning of this year. Such uneven changes call for some basic considerations.

The primary purpose af capital accounts is to provide a cushion of protection to the creditors of banks. Since bank liabilities are payable in a fixed amount of dollars, the burden of fluctuation in asset value falls on capital structure. Capital funds must be sufficient to absorb losses without undue strain and yet not so large as to unduly reduce earnings. This is the core of the problem underlying bank capital structures.

The problem of adequacy or inadequacy of capital funds should be handled on the individual case-by-case method because variations in size and geographical locations of banks impair the significance of national averages. But even for individual banks, the traditional ratios are apt to be defective because we really have no standards or even satisfactory bench marks for reference. The long-honored rule of one dollar of capital funds to every $10 of deposits had to be abandoned when bank deposits became greatly inflated. If that standard had been continued, some of the strongest banks would have appeared to be deficient in their capital structure.

Efforts to find other measuring devices were then switched to ratios that related to assets which reflect gains and losses rather than a fixed liability as deposits do. As a result, we now have several approaches. One is to use the ratio of capital funds to total assets. A bank is supposed to lack adequate funds if its ratio falls below the national average. But how good is the national average as a guide? There are likely to be great extremes in such an average, and these extremes may impair the validity of the average ratios.

Another emphasis is on the importance of the relationship between capital funds and risk assets, which are defined as "assets other than cash and government securities." The assumed ratio is $1 of capital funds to every $6 of risk assets. Query: is there no risk attached to government securities with fluctuating market values? Is it prudent to count them as substitutes for cash reserves? Or is there a determined standard degree of risk in other earning assets?—for example, short term municipals of the highest grade rating, or loans guaranteed or insured by the Federal Government or its agencies, or loans secured by government securities or by cash surrender value of life insurance. Used as a standard, this ratio obviously would be misleading and would produce spurious results.

According to still another test, a commercial bank has adequate basis if it has $1 of capital funds to $14 of total assets and $1 of capital funds to $4 of risk assets. Other ratios also are used to supplement this test. But what if one ratio is favorable and another unfavorable? The use of ratios, singly or in combination, cannot produce a reliable standard guide because relations in each ratio may be different.

The central difficulty with these attempts at measurement is that we have no uniform definition of the adequacy of bank capital and no uniform definition of risk assets. But even if it were possible to formulate inclusive concepts and contrive new ratios, we would still be using mechanical gadgets to measure fluid situations.

The problem of bank capital adequacy seems to be a matter of judgment, reached after a careful study of assets and their behaviour under strained conditions. No broad national averages can resolve this problem. Only each individual bank, with intelligent guidance, can solve it; and it should be the responsibility of bank directors and management to do so.

While generally speaking, our banks are reasonably well capitalized, there are undoubtedly many banks whose capital structures are low in relation to their deposit liabilities and risk assets. The solution in such cases obviously is to increase capital funds or reduce the volume of risk assets. Since no bank would want to withdraw from lending activities and hold a lot of idle cash, the alternative is to raise its capital through (a) the retention of profits, (b) an additional stock issue to its own stockholders, or (c) the sale of capital stock to the public, or (d) a combination of these methods.

Even with conservative dividend policies and higher returns on earning assets, it is difficult to add much to capital funds from earnings after taxes. At best, profits are not large enough to accelerate the growth of capital in relation to the growth of deposits and assets. National banks and state member banks of the Federal Reserve System are particularly handicapped in this respect. They must carry large amounts of cash in the form of reserves immobilized at the Reserve Banks and in their own vaults without earning anything. This reduces their working substance and limits earnings. Many nonmember banks, on the other hand, are permitted to put a part of their reserves into liquid earning assets.

While originally the purpose of required reserves was to give added protection to banks, in recent years the concept of these reserves has been changed to include the reserves as a means by which the Reserve System can control the supply of bank credit. Perhaps it is high time to take another look at this subject of withholding so much idle cash under changed conditions.

With respect to selling bank stock, there are, of course, many difficulties, though they are not insurmountable. Investors have been slow to buy it because it does not appreciate as fast as industrial stocks, even though bank stock generally does not depreciate as fast either. Bankers also are slow to act because bank stocks, for the most part, are selling below their book values, and increased capital dilutes stockholders' equity, reduces earnings per share, and increases the dividend burden.

The market appraisal of all stocks is based primarily on earnings. The higher the rate of earnings, the better; the lower the rate, the less desirable is the stock. The fact that a strong capital structure means strong equity is often ignored by many stockholders who buy shares on the basis of high earning rates rather than on equity.

But the difficulties incident to the selling of bank stock are probably exaggerated. Many banks recently have increased their capital structures through successful flotations of stock, and many of them are doing it now. Responsible

*Continued on page 28*

*Continued from page 27*

# A Banker Looks at the Current Picture

bank directors and managements should not hesitate to increase their capital structures if, in their judgment, the strength and capacity to serve the public should be raised.

In addition to capital funds, there also are other ways to strengthen the capacity of banks. The most important method is to accumulate valuation reserves against possible loan losses. A sound bank policy should be to set aside each year a certain proportion of earnings in the form of reserves for bad loans.

Under the ruling of the Commissioner of Internal Revenue on Dec. 8, 1947, banks were permitted to accumulate tax deductible reserves for loan losses. But not all banks have taken advantage of this ruling. At the end of 1952, only 45% of all insured commercial banks had established such reserves. The larger banks have made relatively greater use of this method. Over eight- or nine-tenths of the banks with deposits in excess of $50 million have bad-debt reserves; and the dollar amount of the reserves of these banks represents over 70% of all such reserves.

The formula under this ruling, however, is becoming outmoded. It is based on the 20-year moving average of loans and losses. As we move away from the heavy losses of the 1930's and move toward the years of large loans and relatively small losses, the ceiling for valuation reserves declines. The formula should be revised and made applicable over a long period of years within certain limitations regarding the total of such reserves. I understand that consideration is already being given to this subject; and banks should welcome the establishment of a new formula, making it possible for them to continue building this additional protection and strength.

This method of valuation reserves also could be extended to bank investments, which make up such an important part of bank risk assets. The underlying idea of such an extension is that banks, as quasi-public institutions, charged with sensitive responsibilities, should be permitted to supplement their capital strength or cushion of protection in every way possible.

Some practical formula, as in the case of loan loss reserves, could be worked out to include valuation reserves based on losses or on the depreciation of longer term securities. The total of such reserves, at any one time, could be limited to a fixed percentage of losses or depreciation. These reserves would fluctuate in accordance with market changes, and thus would be self-adjustable.

The formula could be first applied to government securities inasmuch as their depreciation has been relatively large and beyond the control of banks. The effect of it would be to strengthen capital structures of many smaller banks, and to encourage more stable and fluid market for government securities. This is important in view of the size of our public debt, its lopsided schedule of maturities and the ultimate dependence of the Treasury upon banks for its successful financing.

### Good Bank Management Means Sound Banking

Problems of capital funds, valuation reserves, quality of assets, personnel, efficient operations and public relations are the responsibility of bank management. Upon the quality of management depends the quality of the bank, its growth and development. This point is so self-evident that it need not be belabored here. But it should be driven hard with the boards of bank directors who are responsible for bank management.

An effective management will mobilize an effective corps of men and women to run a bank. It will compensate them well on the sound principle that the well-paid help is the most efficient help and the greatest builder of public confidence and good will. Cheap help is the most expensive help. Bank directors should recognize this truism and act accordingly.

Bank management must know what it is trying to do and how it proposes to do it; in other words, it must clearly know what its objectives are and what policies it should follow. Probably no one has set forth this task more clearly than the first Comptroller of the Currency, Hugh McCullough, in 1863, in his letter to all national banks. What Hugh McCullough said to those early bankers is thoroughly applicable to us of the present day. Let me brief you on some of his admonitions:

"Learn to know your customers, make sound loans, and be sure the borrowers have the will, capacity, and the way of repayment. Avoid speculative plunges in loans and investments.

"Diversify your loans and investments to avoid undue concentration. Control your discounts, and do not permit borrowers to control your policies.

"Work with your customers closely and intimately. If they prosper, you shall prosper.

"If you have some reservation about the integrity of a customer, stop dealing with him and close his account.

"Protect your independence of judgment and action. Keep aloof from partisan influences.

"Select and develop bank officers of high character, ability, and sense of responsibility. Pay them such salaries as will enable them to live comfortably and respectably; and require of them their entire services. A man of extravagant habits, dubious integrity and loyalty should not be tolerated as a bank officer or an employee.

"Through capital funds and otherwise, make your institution strong to protect your depositors and stockholders; to secure for it the confidence of the people.

"Pursue a straightforward, upright, legitimate banking business. Be not tempted by prospects of large gains to do anything that is not in accordance with the highest banking standards and procedures.

"This is the essence of sound banking policies and practices."

Stockholders and depositors supply the funds necessary to establish and operate a bank. They both look to the board of directors and officers to protect their interests and serve the public well. Business and individuals in every community expect the banks to take care of their legitimate financial requirements promptly and efficiently. Only a competent management can meet these demands and follow the advice given by Hugh McCullough 90 years ago.

Good management will develop and use experience, knowledge, wisdom, and foresight that are so necessary for sound credit analysis, judgment, and action. The success and reputation of the entire banking system depends on the performance of individual banks—14,000 of them; and the quality of that performance, in turn, depends upon the quality of the management.

### Summary and Conclusions

(1) **The current picture shows that the business boom continues.** Production, employment, income, and trade have been at peacetime record levels. The defense program must go on, though its form may be changed somewhat as a result of the Korean truce. But certain changes in prices, decline in farm income, and the behavior of the stock market foreshadow corrective adjustments in inventories, prices, costs, as well as in productive processes. These adjustments may result in a business setback over the turn of the year but not in any serious recession. We are in a buyers' market; and upon completion of the correction, business again should be good. Competition will be strong, as is to be expected in free markets for goods and services.

(2) **Bank credit has provided the sinews of economic activity during and since the war.** The demand for bank credit and long term funds has been exceeding the supply, with the result that credit is tight and interest rates have risen even though they are still lower than at the same stage of the business cycles in the past. The Federal Reserve policy has been flexible, and its general effect on the economy thus far has been wholesome. It can now be easily adjusted to changes in business conditions. Influence over the total volume of credit should be its primary task. Within its power and ability it should assist in maintaining the integrity of the dollar.

(3) **Commercial banks have experienced significant shifts in their assets during and since World War II.** During the war, they became investing institutions; and even their loans were largely made to help war financing. But since the war, they again have turned to lending so that their holdings of securities, including governments, now are less than the volume of their loans. The character and diversity of their loans have changed further, but the overall quality has been relatively high and earnings well sustained, despite increased costs and high taxes.

(4) **In consequence of great monetary and credit expansion, our national debt, public and private, has risen greatly.** The burden of servicing this debt is heavy but manageable if we can maintain our production, employment, and income at high levels. Our national wealth has increased more than the debt, and the financial positions of businesses and individuals in general continue strong. The large growth of debt or credit need not signify any serious threat to economic stability. It should indicate the growth potential of our economy.

(5) **Commercial banks possess large capacity to serve business and individuals.** They are reasonably well capitalized, although there are many banks whose capital structures are low in relation to their deposit liabilities and risk assets. In such cases, directors and managements should take steps to increase their capital funds through the retention of profits, new stock issues to their stockholders or the sale of stock to the public, or a combination of all these methods. Accumulations of valuation reserves help to strengthen the cushion of protection, and the present formula for establishing reserves for possible loan losses should be revised because in its present form it is becoming obsolete.

(6) **Good management means sound financing.** To build good management is the responsibility of bank directors. Both bank directors and management should crystallize bank objectives and policies. They should work out definite policies and programs for the selection and training of bank personnel. Bank operations, service to customers, and goodwill of the public depend upon the quality of personnel, officers and employees. The task is difficult, but there is no escape from it if our individual banks and the banking system as a whole are to provide financial leadership and the necessary credit sinews for the growth and prosperity of our private economy and of the people.



## Ralph W. Davis Co. Formed in Chicago

CHICAGO, Ill. — A new firm with a new address starts business today (Oct. 1) in Chicago's financial district. Ralph W. Davis & Co. opens its doors at 180 West Adams Street and commences operations as Registered Specialist and Odd-Lot Dealer on the New York and Midwest Stock Exchanges in over 45 nationally known listed securities.

General partners of the firm are Ralph W. Davis, member of the New York Stock Exchange; Lyman Barr and Scott Davis, formerly partners of Paul H. Davis & Co., and Mr. Alfred E. Turner. Together, these partners have a cumulative total of 87 years of membership on the Midwest Stock Exchange. Mr. Leon Wheeler is a limited partner.

Ralph W. Davis has been closely associated with the Midwest Stock Exchange for many years. He is a former Governor and served as Chairman of the Board of Governors from 1945 to 1947, when it was known as the Chicago Stock Exchange. Currently he is a Regional Governor of the Association of New York Stock Exchange Member Firms. Lyman Barr is a Governor and Vice-Chairman of the Executive Committee of the Midwest Exchange. Alfred E. Turner, a former Governor, is a member of the Committee on Floor Procedure.

The firm is registered as Specialist and Odd-Lot Dealer in many stocks, including: American Telephone & Telegraph, Anaconda Copper, Bastian-Blessing, Bendix Aviation, Continental Motors, General Electric, General Motors, Illinois Central, Marshall Field, Oak Manufacturing, Packard, Pennsylvania Railroad, Pure Oil, Thor Corporation, Trane and U. S. Steel.

## Two With Managed Inv.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Cal.—John C. Schick and Homer D. Wilson are now with Managed Investment Programs, 41 Sutter Street.

*Continued from page 18*

# The Outlook for Interest Rates

liance upon borrowing at the Federal Reserve" was particularly disturbing. Many bankers regarded this statement as conflicting with the prevailing view that one of the basic functions of the Federal Reserve was to assist in meeting seasonal demands for credit. Their concern was increased by the fact that member bank borrowings were high, that the Federal Reserve was encouraging banks to reduce these borrowings, and that a substantial seasonal increase in bank loans was expected in the second half of the year.

All this fostered the belief in some financial quarters that the Federal Reserve was bent on tightening credit further and substantially, that it was almost completely disinterested in the problems of the Treasury, and that the latter was about to undertake a program of competition with private borrowers at rising interest rates. This interpretation of the views and intentions of the authorities engendered increasing anxiety regarding the future and contributed to the evaporation of market confidence.

Furthermore, these conditions led to increased demands for funds, thereby intensifying the downward pressures in the bond market. Many corporate managements, as well as some state and local authorities, apparently hastened to expedite their borrowings lest new financing become even more costly, or perhaps wholly unavailable. Marginal borrowers were encouraged to enter the security markets, many borrowers sought to anticipate their financing, and others approached their banks with a view to covering possible future needs. Paradoxically enough, therefore, higher interest rates had, at least temporarily, a stimulating effect upon the volume of security financing in the aggregate. This spurt in new financing was a further cause of the rapid drop in bond prices.

As the squeeze in credit conditions showed signs of assuming major proportions, the Federal Reserve departed from its previous neutral attitude, and early in May it began to provide reserves to the money market. By early July over $1.1 billion had been furnished in this manner. A more dramatic and significant measure was announced late in June, when the Board reduced member bank reserve requirements by about $1.2 billion, effective early in July.

Around the same time, in order to remove some of the uncertainties overhanging the credit markets, the Treasury announced that it would raise some $6 billion of new money through the issuance of tax anticipation certificates maturing in March 1954, and not through longer term issues, as some had thought likely. The reduction in reserve requirements was closely correlated with the Treasury financing operation; apparently it was recognized that the success of the large Treasury borrowing could be assured only through the assistance of the commercial banks, and it was believed that lowering reserve requirements was the most expeditious way to provide promptly the large amounts of reserves which the banks would need. The effect of these various measures was to stimulate a pronounced improvement in sentiment both in the bond and the money markets.

### Economic Factors in the Bond Market

Bond prices recovered from their June lows in response to the measures of the Federal Reserve to relax tight credit. In part, the improved tone of the market reflected also the summer lull in new issues. However, bond yields are still higher than they have been for a good many years. A large volume of new financing is in prospect in the months ahead, and this has already led to some firming of yields especially on new issues. Not only are corporate borrowings expected to be substantial, but huge offerings by states, municipalities, turnpike authorities and other public bodies are in prospect. With heavy investment demands concentrated over a short period, it is likely that bond prices will be under further pressure in the near future.

Looking beyond the turn of the year, present indications are that demands for investment funds in the aggregate will remain large for some time to come, but that they may move below 1953 levels. Business requirements for outside financing are likely to show some decline. Plant and equipment outlays currently are at a peak; recent surveys suggest that business management in the aggregate does not intend to expand spending beyond present levels. A downturn may be in prospect for 1954; some observers cite a decline in new orders for capital equipment in recent months as a harbinger of lower spending on plant and equipment next year. In any event, the tax amortization program, which has contributed importantly to current investment activity, will be of dwindling significance. Furthermore, even if present record levels of plant and equipment outlays should persist for a protracted period, a growing volume of funds is accruing to business out of depreciation and other noncash charges and out of reinvested profits. These factors may be expected to reduce corporate borrowings in 1954.

Housing starts have shown some weakness in recent months. It is difficult to determine whether this reflects the relatively high level of starts last winter, congestion in the secondary mortgage markets, or a real easing in the demand for housing: probably several factors are at work. New starts may thus be settling to somewhat lower levels, and at the same time mortgage amortization payments are steadily increasing. Consequently, the net growth in outstanding residential mortgage debt next year is likely to be somewhat below 1953.

The Treasury's cash requirements may also be lower in 1954, although any reduction in market borrowings is expected to be moderate. Because of the increasing concentration of tax receipts in the first half of the calendar year, the Treasury's borrowing requirements through the first six months of calendar 1954 will probably be less than in the corresponding period of 1953. Furthermore, if the Treasury continues to make progress toward balancing the budget, a somewhat lower amount of new financing may be in prospect also for the second half of 1954, compared with the same period of the current year. However, it is clear that the Treasury will remain a substantial factor in the investment markets for some time to come, especially if real progress is to be made in funding the debt.

In summary, therefore, corporate business, home owners and the Treasury may be somewhat smaller net borrowers of investment funds over the next year or so. Borrowings by state and local governments and authorities, on the other hand, are not likely to decline, and may in fact show some further rise in 1954. On balance, however, it would not be surprising for net demands for long-term funds in 1954 to decrease moderately even if economic activity remains around current high levels. If business conditions should deteriorate in the next 12 months or so, requirements for investment funds would probably be materially smaller.

The flow of investment funds, on the other hand, is likely to be well maintained. Current savings are at record levels and the savings institutions are accumulating funds rapidly. Mutual savings bank deposits have increased 15% more in the first half of 1953 than they did in the same period of 1952; for savings and loan associations, the figure is close to 25%. Time deposits of commercial banks and admitted assets of life insurance companies, on the other hand, have risen by about the same amounts in both of these half-year periods.

Personal income has been in a rising trend for some years, and as long as this trend persists, the amount of current savings will continue to increase. Furthermore, as the experience of 1949 suggests, the flow of funds available to the savings institutions may be expected to remain at high levels even in the event of a moderate business contraction and some decline in incomes. Obviously, if a decline in personal income should assume large proportions, some diminution in the rate of savings is to be expected. For some months ahead, however, no decrease in the inflow of funds to the major savings institutions appears in sight.

Weighing these various economic trends and factors, the conclusion seems to be that we are passing through the cyclical peak of investment demands and bond yields. However, the establishment of a clearly defined downward trend in interest rates is likely to be deferred until a decline in investment activity becomes more clearly evident.

### The Outlook for the Money Market

The measures adopted by the Federal Reserve and the Treasury in June and July were soon reflected in a significant relaxation of the extremely tight conditions that prevailed in the money market in the second quarter. The investment of liquid funds, by corporations and others, in short-term Governments further helped reduce money market rates; it also helped offset part of the squeeze on bank reserves resulting from the normal seasonal expansion in bank loans. The shortest term money rates are appreciably below their levels of May and June, and in fact have averaged somewhat lower than in the early months of this year. However, medium-term rates are only slightly lower than at midyear and so far show a rise for the year as a whole.

Business needs for bank credit tend to rise seasonally in the latter part of the year, but the increase in commercial bank loans over the next few months is likely to be restrained by several factors. The lower prices of agricultural commodities and greater use of Government loans will probably result in less of a seasonal rise in bank loans normally used to finance crop movements. The acceleration of income tax payments under the Mills plan means that corporations have paid about 10% more of their taxes in the first half of the year than was the case in 1952. Furthermore, corporate profits are likely to be higher than in the second half of last year, when they were adversely affected by the steel strike and its aftermath. Business corporations should therefore have substantially more cash available either for investment in short-term Governments obligations or to reduce their reliance upon bank credit. The large growth of business inventories in the last quarter of 1952 is not expected to be repeated this year. Nor is the expansion in consumer and real estate loans likely to aggregate as much as in the closing months of 1952.

New Treasury financing will also be significantly less than in the last quarter of 1952, when tax anticipation bills totaling $4.5 billion were offered. This prospect reflects the recent failure of Congress to raise the statutory debt limit. The Treasury may be able to meet its requirements through the end of 1953 by drawing down its cash balance. However, it will probably prefer to avoid an excessive drain on its funds and therefore may raise new money within the limit of the debt ceiling.

At the present time, the debt subject to the limit is around $3 billion below the ceiling, and the margin will be narrowed by special issues to Government trust funds and continuing net sales, presumably, of savings bonds and notes. On balance, therefore, the Treasury may be able to raise perhaps $2 billion, but not much more, in new money over the remainder of 1953; this would be about one-half the amount borrowed in the last quarter of 1952. If the Treasury decides to undertake a new offering, it will presumably favor short-term obliga-

*Continued on page 30*

Continued from page 29

# The Outlook for Interest Rates

tions, which may be forthcoming within the next month or so.

Although the demands for bank credit on the part of business and the Treasury during the balance of 1953 are likely to aggregate substantially less than in the corresponding period a year ago, nevertheless economic forces will be operating in the direction of moderately tighter credit conditions. Currency in circulation is rising to its seasonal peak in December, and there is a sporadic outflow of gold which, if continued, will add to the pressure on bank reserves. A decline in business activity, if modest, is not likely to have any important effect upon this outlook for some seasonal tightening in the money market through the end of this year; however, a business downturn would accentuate the seasonal easing of credit in early 1954. The course of money rates under these circumstances is likely to depend substantially upon the measures employed by the monetary authorities, whose actions, in turn, will be governed importantly by their appraisal of the economic scene.

### Prospective Credit Policies

The record of recent months provides some clues regarding the credit policies that are likely to be applied by the authorities in the period ahead. The Federal Reserve, like the monetary authorities in most major countries of the free world, is trying to carry out a flexible credit policy. Such a policy involves restraining credit in periods of boom while discouraging credit liquidation and facilitating credit expansion in an economic downturn.

The experiences of 1952 and early 1953 show the actions that may be expected when production is at high levels and the labor force is fully employed. Under these conditions the authorities took a moderately restrictive position. Even in the early part of 1953, when production and business were moving to new peaks, they did not aggressively contract credit, but were unwilling to provide additional bank reserves through open-market operations at a time when the need for credit is usually at a seasonally low ebb. Since credit demands in the spring of 1953 remained large, this permitted economic forces to tighten the money market. In an economy operating at or near peak levels of employment, production and income, the Federal Reserve is likely to continue to lean toward moderate credit restraint.

However, the general pursuit of a basically restrictive course does not preclude rapid and sensitive modifications in response to shifts in underlying conditions, and the Federal Reserve in the past several months has amply demonstrated its willingness to alter its position. The easing of credit around mid-year apparently represented in large part the reaction of the Federal Reserve to the accumulating evidence that the course followed earlier in the year was having unduly restrictive effects. Doubtless the authorities were surprise and disturbed by the deterioration in financial sentiment and in bond prices in the second quarter of the year; they probably would not relish a repetition of this experience. Once the deterioration assumed major proportions, they undertook corrective action promptly. Furthermore, the authorities have given assurance that the needs of the Treasury will be met "without undue strain on the economy," and have demonstrated their readiness to provide for the seasonal increase in the credit requirements of the economy in the latter part of the year. This effectively dispelled the fears to the contrary that had contributed so much to the credit squeeze.

It is the essence of a flexible credit policy that the authorities be ever alert to changes in the economy and be prepared to adapt their position accordingly. Even then there will be unavoidable time lags between the application of credit measures and their effects upon business. Hence there is a risk that any course may be pursued beyond the period when a change is appropriate. However, the authorities are engaged in a continuous reappraisal of economic trends and conditions; one may predict with a relatively high degree of certainty that signs of an economic downturn will be either accompanied or rapidly followed by a shift from credit restraint in favor of a decided easing of credit conditions.

### The Problems of Debt Management

In the present environment, the outlook for interest rates, especially bond yields, depends not only upon the factors operating in the economy and the response of the Federal Reserve, but also upon the debt funding activities of the Treasury. Public statements by the Treasury authorities have stressed three main objectives of debt management policy. These are (1) achieving a more balanced maturity distribution of the Federal debt; (2) avoiding reliance upon Federal Reserve support in the Treasury's financing operations, especially when such support would increase bank reserves and thus impede credit restraint; and, as a corollary, (3) having the Treasury compete freely in the security markets and pay competitive rates for its funds. The important question is how rapidly the Treasury may advance toward these goals.

So far in 1953, the Treasury's debt operations have been characterized by caution and circumspection. The offering of a $1 billion of 3¼% bonds was apparently within the potentialities of the market and probably would have been absorbed without difficulty had the "free riding" problem been avoided. For the balance of its new money requirements to date, the Treasury has relied almost wholly upon the issuance of 3-month bills and 9-month certificates. Nor has the Treasury attempted to "force" the market in its refinancing operations; in February and again in September, holders of maturing obligations were given the option of exchanging them for 1-year certificates or for medium-term securities. In the September refinancing, the response to the medium-term offering substantially exceeded expectations, which is an encouraging sign of improved market confidence.

It must be recognized that the result of this careful approach has been to retard the deterioration in the maturity distribution of the debt rather than to achieve any real improvement. However, a more vigorous policy appears precluded, at the present time, by the record volume of private investment requirements and the need to finance large Treasury deficits.

Some of the difficulties involved in attempting to sell long-term Treasury securities in the prevailing environment pertain to the technical aspects of new financing. In a period of strong demand for investment funds, the Treasury is at some disadvantage in competing with other borrowers. State and local governments have the advantage of tax exemption, and corporate borrowers can make their issues more attractive by marking up the coupon rate. However, if the Treasury raises the rates on its offerings, it runs the risk of precipitating a rise in yields throughout the bond market without materially increasing the competitive attractiveness of its own obligations. Furthermore, the American economy is geared to a large volume of liquid assets; many investors prefer to maintain substantial holdings of short-term Government obligations, and rising interest rates may for a time enhance rather than reduce the desire to maintain a liquid position. In any event, it is difficult to perceive how the Treasury under current conditions can pursue a vigorous funding policy as long as it must borrow large sums from the market to finance the deficit.

An energetic funding program also entails some risks of a broader economic character. The levels of interest rates, their behavior and their prospective trends are generally assumed to have substantial effects upon business decisions concerning future capital investments. Had the trends evident in the credit markets in the second quarter of this year been allowed to continue for a protracted period, they would doubtless have caused substantial adverse repercussions in the economy. Furthermore, if Treasury operations take too large a share of current savings, they may well contribute to a downturn in private investment and hence in economic activity.

There is every indication that the Treasury, in managing the debt, is mindful of all these risks and problems. The recent record suggests that the authorities are not likely to embark upon a more intensive effort to extend maturities until some relaxation of investment demands gives the Treasury an opportunity to move somewhat more rapidly. Even then, however, the task is likely to remain formidable, since any material reduction in investment and business activity is likely to confront the Treasury with continued budget deficits and further new money requirements. Thus, even if investment demands fall off and economic activity moves downward, the Treasury is unlikely to proceed with its funding program so vigorously as to prevent an easing of long-term interest rates.

### Conclusions

This review of factors operating in the money and investment markets, and of the monetary and fiscal policies in effect, suggests certain conclusions which may be summarized as follows:

(1) The credit squeeze and bond market debacle in the spring of 1953 reflected largely the exaggerated fears of sharply restrictive credit measures, which greatly magnified the effects of basic economic forces. The conditions that combined to bring about this uneasiness and apprehension among the financial community were soon corrected, and are not likely to be repeated in the foreseeable future.

(2) The experience, however, served to dispel some of the exaggerated anxieties regarding the aims of the Federal Reserve and the Treasury; in its wake there followed a clarification and reaffirmation of the sound, sensible and responsible policy standards which the authorities had been endeavoring to follow, but which they had permitted at times to become misconstrued.

(3) For the period ahead, a basic conclusion to be drawn from the experience of recent months is that the Federal Reserve is continuing to follow a flexible credit policy. Since this policy presupposes a keen alertness to economic developments, Federal Reserve action is likely to remain predicated upon the condition of the economy, including the rate of investment activity and the borrowing requirements of the Treasury.

(4) The Federal Reserve is continuing to supply funds to meet seasonal credit needs and is permitting the money supply to grow commensurately with the economy. Fears that the authorities may deviate from this basic course appear unwarranted.

(5) Under conditions of full employment and sustained high levels of business activity in the aggregate, the Federal Reserve is likely to display a mildly restrictive attitude toward the market. However, the authorities may be expected to be alert to avoid a repetition of the earlier credit squeeze and the attendant unsettlement in the markets. In an economic downturn, the authorities will almost certainly shift rapidly toward a pronounced easing of credit.

(6) The coordinated decisions on credit and debt management action in June-July give reassurance that effective cooperation between the Treasury and the Federal Reserve is continuing. This is as it should be and as it must be. The Treasury should not dominate the Federal Reserve System but neither can the latter be unmindful of the problems of the former.

(7) Efforts by the Treasury to fund the debt have so far been temperate and restrained, and while the goals of the debt managers remain unchanged, they are aware of the many hazards to the economy, and are not likely to be overly zealous.

(8) Aggregate demands for investment funds in 1954 may decline somewhat from the high levels of the current year. With large personal savings continuing, it is probable that we are moving through the cyclical trough of Government bond prices and that economic forces will operate in the direction of higher bond prices in the course of 1954. However, the problem of funding the debt will be a market influence for a long time ahead. As a result, a moderate business downturn is unlikely to lead to a repetition of the excessively easy credit and low interest rates that were generally characteristic of market conditions in the past two decades.

# Two Teams Tie for Hayden Trophy

Two four-man golf teams tied to win the 25th Annual Charles Hayden Memorial Trophy Tournament at the Baltusrol Golf Club, Springfield, N. J. The winning teams represented Hemphill, Noyes & Co. and Merrill Lynch, Pierce, Fenner & Beane. The winning score was a net of 315 for the two teams.

A total of 35 teams representing New York investment banking houses participated in this year's tourney. The Hemphill, Noyes team consisted of: Jansen Noyes, Jr., Blancke Noyes, Harold C. Strong, Jr. and W. Halsted Taft. Members of the Merrill Lynch team were Caryl H. Sayre, William Dunkak, James E. Thomson, and Arthur S. Laundon.

The winning teams edged out the third place team from Kuhn, Loeb & Co. which netted 318.

Three men shared honors for low gross with scores of 80: Charles Glavin, The First Boston Corporation; William E. McGuirk, Jr. of Kuhn, Loeb & Co.; and Joe Lee of Reynolds & Co.

H. R. Washer, Dean Witter & Co. won the individual low net score with a 72, and William Dunkak of Merrill Lynch was winner of senior low net honors with a 75.

## With Gross, Rogers Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif. — James E. Edgerton, Eli Goulden, Herman J. Lofgren, and R. C. Williams, Jr. have become associated with Gross, Rogers, Barbour, Smith & Co., 559 South Figueroa Street, members of the Los Angeles Stock Exchange. Mr. Edgerton and Mr. Lofgren were formerly partners in Edgerton, Lofgren & Co., with which Mr. Goulden and Mr. Williams were also associated.

## Blyth Co. Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Cal.—James A. Sanford has become associated with Blyth & Co., Inc., Russ Building.

*Continued from page 16*

# Faults and Virtues of Public Debt

We were greatly aided in our study by a nation-wide committee of the American Bankers Association, a similar committee of the Investment Bankers Association, and committees representing the savings banks, life insurance companies, and by other groups and individuals.

It was clear from this analysis that there were two pools of funds which we could draw upon outside the commercial banks. There was a limited amount of long-term money available in the hands of insurance companies, savings banks, pension funds and other private and instituational investors prepared to buy a properly priced long-term Government bond. We, therefore, offered such a bond in April at the going market yield, which was the lowest yield at which it could be sold—3¼%. The bond was substantially oversubscribed but, for two and a half months after its issuance, dipped below par due to a variety of causes, including especially the huge volume of new financing by corporations, states and municipalities, which put in the market $7 billion of new securities in the first six months of the year—a larger amount than ever before. The 3¼% bond has now regained a satisfactory position in the market.

The only other substantial pool of non-bank funds was in the hands of corporations and other non-bank, short-term investors. We provided securities which would attract that money in the form of Treasury bills and tax anticipation certificates.

The net result was that we have been able to finance this year's huge deficit without any net increase in bank holdings of Government securities and, hence, without any increase in inflationary pressures due to that cause.

From time to time the banks have been most helpful in the initial sale of new issues both through their own purchases and handling purchases for their customers. Steady absorption of bills and certificates by business and other buyers has, in turn, reduced bank holdings.

In addition to the financing for new money, a short and modest step has been made in stretching out maturities in refunding issues by giving holders a choice between one-year and somewhat longer maturities. We should have liked to have moved further in this direction, but market conditions did not justify it.

As it is, the few steps we have taken toward spreading out the debt, together with other pressures for funds and the Federal Reserve policy of mild credit restraint, have caused some jolts and bumps in the market. Some of these have been unpleasant, particularly for holders of long-term Government bonds, who have seen the prices of their bonds depreciate in the market. Most holders, including bankers, have taken the price change in good spirit and with understanding, as one of the normal risks of investment.

Fortunately also, the adjustment to freer markets and more realistic rates was begun several years ago and especially since the accord reached by the Federal Reserve System and the Treasury in the spring of 1951. For example, the longest 2½% bonds were selling above 106 in April 1946, they were down to 95½ in January 1953, dropped below 90 early in June and are now back up above 93½.

You can't move from an inflationary financing policy to a sound one without some readjustment. Sound, honest money cannot be achieved without paying some price, and it is worth the price.

### Looking Ahead

The steps taken so far in funding the debt hardly show in the totals. With this huge debt, getting shorter day by day, you have to run fast to keep even. In 1954, we shall still have to refund a quarter of the debt.

But it is not as bad as it looks.

First, the budget picture is greatly improved. The newly released figures discussed yesterday by Secretary Humphrey mean that there is real hope that we may be nearly through with raising cash to finance a deficit. Without new cash to raise, we and the market will be freer to deal with refunding.

Second, the market has now shown evidence that it has weathered a readjustment to higher yields and is able to stand on its own feet without price props.

Third, experience shows us that, over a period, there are substantial amounts of funds available for investment in U. S. Government long-term bonds at fair rates. Let me name a few sources.

(a) Government trust funds are absorbing $3 billion a year of Government securities — a large part of which may be considered long-term funding, such as go into pension and insurance funds.

(b) State and local governments buy about three-quarters of a billion a year of U. S. Governments, about half of it for pension funds.

(c) Individuals and other pension and trust funds are steady though not large buyers.

(d) Insurance companies and savings banks are potential buyers at present yields.

(e) Individual buyers of Savings Bonds have this year, been buying more E and H Savings Bonds than they are cashing in. We believe, with your cooperation, these sales can be increased substantially.

A steady flow of funds such as these will, over a period of years, absorb substantial amounts of long-term bonds, especially at times when other financing is lighter.

Lengthening the debt can apply to the banks, too, as well as to non-bank investors. In 1939, before World War II, the average maturity of Governments held by the banks was nine years. Today, it is three years.

The Government debt would be more orderly, the dangers of inflation and deflation would be reduced; the risk of interfering with the steady flow of funds into productive use would be less, if the bank-held Government debt were smaller and better distributed over a period of years. The experience of the September refunding offers hope that, under suitable conditions, this can be brought about.

### Summary

There is every reason to look forward with confidence to this country's ability to put its financial house in better order without any serious disruption of credit or markets. The stream of the nation's savings is huge—larger than ever before; the credit base is secure; the banking system is sound. With a reasonable assurance of sound, honest money of stable buying power there is no better investment than securities of the United States Government. The bank's insurance companies, and other financial institutions, businesses, and individuals have shown both their capacity and desire to cooperate with their Government in this effort.

The speed with which the national debt can be re-distributed will have to depend on the rate of the flow of savings; the pressure of demand for funds from other sources; and the state of the money market. You can't force free markets, and the Treasury has no intention of doing so. It took a long time, a huge war, and a huge defense program to get us where we are. It will take time to re-adjust.

In this process we shall always have as our objective, sound money and economic stability, avoiding either inflation or deflation, and encouraging and not impairing the steady, forward growth of the country's activity.

It is our belief that a sound debt policy will itself make for greater confidence, stimulate enterprise, and contribute to the well-being of all the people.

We can do no better at this time than to recall the words of George Washington in his Farewell Address:

> "As a very important source of strength and security, cherish public credit. One method of preserving it is to use it as sparingly as possible; avoiding occasions of expense by cultivating peace, but remembering also that timely disbursements to prepare for danger frequently prevent much greater disbursements to repel it; avoiding likewise the accumulation of debt, not only by shunning occasions of expense, but by vigorous exertion in time of peace to discharge the debts which unavoidable wars may have occasioned, not ungenerously throwing upon posterity the burden which we ourselves ought to bear."

*Continued from first page*

# Excess Profits Tax Lapse And Tax Cuts in Offing

tive cautiously but resolutely and always press toward it.

### The Budget

The first pillar—and one which we have already made substantial progress in strengthening—is the budget pillar. As you gentlemen well know, deficit financing—that is, spending more than you take in—means more and more borrowing and debts which in times of high employment and incomes lead to inflationary pressures and unsound money. When a government spends more than it takes in, it has to borrow to pay its bills. When a government borrows from the banks, it creates more credit, increases the money supply, and thus helps cause inflation. This is what we are trying to check.

The midyear review of the 1954 fiscal budget showed some real progress being made in getting the budget in hand. Estimated expenditures have been reduced by nearly $6½ billion under the spending estimates this Administration found upon taking office in January. In addition, income was overestimated by more than a billion dollars. So that the prospective deficit has really been cut from over $11 billion to less than $4 billion.

Eighty-one billion dollars of C.O.D. orders which were placed by the government from one to three years ago will come due in the next year or two and must be paid for. These inherited obligations make it impossible to balance the budget overnight, but even these forward obligations will be cut this year by more than $9 billion, according to present planning.

As our midyear budget review showed, we have turned the corner in attempting to get our government's finances in hand. For the first time in the past few years we are planning to spend less this year than in the year before. The sharply rising curve in Federal spending has now turned downward. This is a very encouraging development. If we can reach a current balance in our cash income and cash expenditures by the end of this fiscal year, it will be much better than we had dared to hope for six months or so ago.

The budget review we announced a month ago also is a turning point because for the first time since 1948 we have total appropriations which are less than estimated receipts for the year. This points to future reductions in both spending and taxation.

For this encouraging start, the Administration is deeply indebted to the Congress and to the various departments and agencies of government for their wholehearted cooperation. Unless some unexpected event arises which substantially changes the need for money, we believe that we are finally on our way toward getting the budget under control. Of course, this is all based upon estimates—estimates which we hope are realized—but this business of estimating how much the government is going to take in and pay out has a great many pitfalls.

Estimating a year ahead in a business this size is more than risky and a small percent of error in our huge figures can mean the difference of a great deal of money.

For instance, over 70% of our expenditures are for national security programs, and even a relatively small estimating error can mean hundreds of millions of dollars. For these programs alone we are spending about a billion dollars a week. There are other programs, too, where the relative margin of error is even greater than it is for the military, although there may not be so many dollars involved. Take the Commodity Credit Corporation for example. In order to figure its net outlays in advance you have to not only estimate the size of the various crops but also just how the farm price support program is going to work out in the year ahead and, even more important, how much of it will be handled by the banks instead of the Treasury. In the last fiscal year (1953) the budget estimate was about $800 million for Commodity Credit but when the year closed it actually turned out to be about $1 billion more. That is just one illustration. There are many, many others.

Every banker knows that the matter of estimating budget expenditures is further complicated by the necessity for estimating the distribution of those expenditures from month to month—and even day by day in some instances—and preparing to have sufficient funds on hand to be able to meet current requirements. You all appreciate that that is why we cannot run our cash balances too low—a point we made in the debt limit discussion. It is sometimes hard to realize that if our cash runs down too much, a few days of unexpectedly heavy expenditures, or an unpredictable shift of a few days in tax receipts, might easily force the Treasury to do borrowing at a time when conditions in the money market were not propitious or in amounts that might substantially exceed our estimated borrowings. Every banker knows that some real elasticity in such circumstances is only prudent management. That was the basis for our request for raising the debt limit.

We were not seeking to remove any limitation on or deterrent to greater spending. We have demonstrated, we hope, to everyone our insistent interest in and demand for economy and getting our money's worth, but because we are responsible for the government's fiscal policies we must have the elasticity required to plan them in the best way. The operation of the Mills Plan, with which you are all familiar, requires the payment of 90% of the corporate tax money in the first half of the next calendar year. In accordance with the practices established by our predecessors when the plan was first inaugurated, tax anticipation notes in the amount of several billion dollars must be issued in the last half of the calendar year, when only 10% of corporate taxes are received, against the 90% to be received in the following spring. This makes a temporary increase in the government debt a practical necessity for a short period even though a cash balance in the annual expenditure is achieved, and under present laws there is no way to avoid it.

The great and really important reason, however, why it is most difficult to cut expenditures radically and bring both a balanced budget and a tax reduction into quick being at the same time relates to our national security. Without due consideration for it, the rapid reduction of expenses would be comparatively easy. But with the real possibility of an atomic Pearl Harbor hanging directly over our heads, and with the knowledge of the Russian capability to produce an even more potent weapon, national security is a matter of first concern.

I do not mean that hope of reduction in expenditures and taxes must be abandoned. Quite the contrary. But the necessity for caution and planning and assurance that reductions are justified before they are made is paramount. A balance between our military and our economic security must be achieved. The ability, the ingenuity, the management, planning and experience of all Americans, under the present able leadership of our Defense Department, I am sure will devise and provide means of accomplishing stronger defense for less money as times goes on. We cannot move as rapidly as we would like, but our course is plain, our objective is definite, and we will achieve it with only the time necessary to be sure of the safety of our actions as we move toward it.

### The Federal Reserve System

The second pillar of sound money is a properly functioning Federal Reserve System. This is another way of saying effective monetary policy. The balance between the money and credit supply and the actual flow of goods in commerce is best maintained by letting the price of money rise and fall with the demand for money. At the same time our Federal Reserve System can and should use its powers to keep the market for credit orderly and to avoid excesses in either direction, to avoid either inflation or deflation.

In the years preceding the March 1951 accord, the Federal Reserve System, under Treasury domination, contributed substantially to inflation by artificial manipulation of the value of government securities. During and after World War II, the Federal Reserve System lost much of its independence. It was used by the Treasury to raise unprecedented amounts of money, and during the war this requirement completely overshadowed monetary policy. As long as the war was on and government controls kept wages and prices pretty well in line, there wasn't so much trouble. But when in 1946 direct controls were removed without also concurrently releasing the Federal Reserve, the excesses of the war years brought inflation and hardship to millions of Americans.

In the years from 1946 to 1951, the Federal Reserve was a prisoner of the Treasury policy in handling the national debt. Instead of allowing the natural increases in interest rates, the Federal Reserve focused major attention on making sure that the Treasury could handle the debt at low rates. This was not in the best interests of the country as a whole. It resulted in the absence of effective monetary policy until the accord of March 1951.

As you gentlemen well know, the March 1951 accord, partly restored effective monetary policy to its rightful place in our economy. It laid the groundwork for the policy which the present Administration is pledged to continue.

I should also note that the Federal Reserve System has no "hard" money policy. It is a good money policy. It is free to allow the demand for money to have its normal and natural effect and to supply funds to keep pace with normal growth. It believes as we do that good money makes good times.

### Debt Management

The third and final pillar is proper debt management. As of the moment our debt is more than $273 billion—which is a terrific amount of debt. The manner in which this debt is handled—that is, maturing issues refinanced and new issues placed — has a very substantial bearing upon the well-being of our nation's economy.

Nearly three-quarters of this debt matures within less than five years or is redeemable at the holder's option. One of the things we are trying to do is to extend that average maturity gradually.

We took a first step in this direction back in April by putting out a 30-year bond at 3¼%. That rate was higher than the rate for previous issues, but it reflected the going rate at the time of the issue as determined by the daily current market purchases and sales of outstanding government securities. Earlier this month we had an encouraging response to a proposal which allowed a choice between one and 3½-year maturities in refinancing an issue of $7.9 billion. About $3 billion of the total exchanged was voluntarily placed in the longer term security.

It is our firm intention to offer more intermediate and long-term issues at opportune times in the future. We will use care, of course, not to press the market in competition with state, municipal and private financing which is at a peak of demand at the present time.

Too rapid movement on our part at this time in crowding into this market and increasing the already enormous demand for longer term funds might very well still further unduly press up on the interest rates for all loans and even deny many other governmental and private borrowers an opportunity to obtain the necessary funds.

It is also our goal to move at opportune times a portion of the debt out of the banks into the hands of private investors.

Randolph Burgess, who is known to most of you and who is the Treasury's chief officer in this matter of debt management, will talk to you in more detail and more scientifically, I am sure, tomorrow about this very important subject. Before I leave it, however, I wish to make known to you my very great appreciation for the work that Mr. Burgess is doing not only for the Treasury but for the whole country in his very intelligent, patient and wise counsel in this very difficult matter of handling our public debt.

[Text of Mr. Burgess' speech on page 16.—Ed.]

### The Current Outlook

Now I want to say just a word about the curernt outlook. My crystal ball is no bigger or brighter than yours. Indeed the composite knowledge from so many localities represented in this room is far superior to anything we know. We are most anxious to learn from you. The decline in the stock market is heralded by some as a sure sign of disaster. I cannot believe that that is so. It may well be that, as the fear of inflation declines, some switching is taking place from stocks to bonds or cash which the holders have not dared to make during the past period of growing inflation. It may also be that there is some fear of declining earnings as certain supplies more nearly approach demand and goods become available. That is nothing to shiver about. In our great and growing economy some adjustment is constantly going on. Wherever adjustment is required, let's face it with confidence and get at it.

I do not believe in blind faith. If trouble is possible, just the opposite is indicated. Keep your eyes open. Seek out the soft spot and see what can be done about it. For over two years now, from quarter to quarter businessmen have been expecting and predicting some downturn. It has not materialized in many lines because government and private spending has been increasing faster than new productive capacity came in. Government spending now appears to be on the road to reduction. That is what the American people want and demand. But in spite of all we can do and all the savings we can make, a relatively small reduction is the most that we can hope to accomplish—quickly. That means that there will still be a tremendous amount of money to be currently pumped into the economy. And furthermore it is the definite policy of this Administration, through tax reductions, to return to the people for them to spend for themselves all the real savings in government spending which can be reasonably anticipated.

As I promised at the time, the excess profits tax will expire on Dec. 31, and there will be no request for renewal. At the same time an average of 10% reduction in individual income taxes is scheduled to go into effect, and it will become effective. Many further adjustments in taxes are now under consideration by the Ways and Means Committee and the Treasury for submission to the next Congress.

The great additions to producing capacity in several lines which have been stimulated by government action over the past few years are now becoming available. The volume of goods we can now produce is far greater than ever before. Lower levels of operation in some lines will develop more material than we have ever had, and it may well be that in some cases this output may be all that the country needs for awhile. But does his mean catastrophe? Our volume of production and employment can be higher than ever and we may still have some capacity in reserve. High volume but good supply — that means competition, efficiency and more value for the consumer's dollar. Surely we have not deteriorated in this country so that all we can see is calamity if the day of allocations and the order-taker is passing and we again have to develop a salesman.

It cannot be that Americans can fear a free competitive economy. That is what we have thrived on. That is how we grew great. The necessity for a little more active selling never hurt anyone. A little more quality, a little more value for the customer has given us the best merchandise in the world. A little more production from the same amount of human effort through organization, management, ingenuity and invention, labor power and tools has given us higher and higher standards of living. Surely we are not fearful that we cannot do it again. It is the American way. Bankers, too, can do their part. You too can and should look forward with confidence. Your service can be improved. You can do that little extra for your customer to help him do his share. And if we all do all we should, America will march forward on sounder ground than we have had under our feet for some time.

I can assure you that this Government is dedicated to the maintenance of a high level of employment and production, and it will pursue policies to foster that end.

### Conclusion

I have described what I consider to be the three pillars of sound money. They are familiar to all of you. They are objectives which we have pursued and will continue to pursue diligently in the months ahead. The achievement of sound money is one of the most important charges placed upon this Administration. It is important because sound money lies at the very base of our national existence. Sound money is fundamental for saving and the creation of jobs.

Because Americans have saved, we have developed our national resources. We have the scientists, the managers, and all the people who make possible the production of complicated machinery, the people who build and work in factories, the farmers who have put modern equipment to such great use, the technicians, mechanics and workmen who have made our great power plants and transportation systems possible. All these things and the employment they provide would not have been possible if the savings of the people had not been available to finance them.

Then why have these millions of people saved and what must we do so that they will keep on saving? Sound money is an essential to keep people saving money. Without assurance in the worth of their money in the future, as well as the ability to obtain a fair rate of income on it when it is saved, people are either going to save less or not at all. No one will save if he fears that the money he saves will be worth less and less as time goes on or may even become worthless entirely.

The great productive power that is in a pair of American hands today rests in the fact that Americans have saved. With sound money, Americans will keep saving and make possible further investments which will develop more employment and even greater and better things for a more fruitful life for all.

Our national security is also involved. Sound money is of the utmost importance to it. Without sound money and without the sound economy that sound money produces, the great productive power of America will deteriorate, and it is America's productive power when mobilized that has won two wars and now provides the greatest deterrent to aggression throughout the entire world. Sound money is the basis for both our economic and our military security. Sound money is essential for the future of America.

A prosperous nation — which means continuing high levels of employment and production—can only be assured by sound money, for prosperity that is not solidly based on sound money is illusory, fleeting and sure to end in disaster. We shall continue to press resolutely toward our goal of high employment and sustained prosperity.

# Securities Salesman's Corner

By JOHN DUTTON

## Leads Are What You Make of Them

Not all leads are good leads—let's start with that premise. But among every 100 leads based upon inquiries received in response to well planned advertising there are just so many sales—no more no less. Perfection in following these leads would only produce so many sales. Anything less will bring lesser results. A top salesman will follow every lead. In addition, he will follow leads correctly. Some by personal calls, some by pre-telephone for appointment, some by letter, some by evening telephone call or personal visit—but he'll follow and he'll report. The best results are obtained through the systematic application of effort which is based upon the conviction that in every hundred leads there are just so many sales—and you won't find them unless you make the calls.

### Case History

The following is a true illustration of what happens when a sales organization goes along from day to day doing the same old thing in the same old way. As you probably are well aware the past several months have been highlighted by declining markets and the summer doldrums. Many sales organizations, such as the one I am going to tell you of this week have let things slide along, and instead of keeping on the job and going ahead with constructive efforts have neglected advertising as well.

Some salesmen have taken the attitude that business is not good, that summer is the time when people are away, so why knock yourself out bucking a trend. This little story deals with just such a condition. In fact, when several of the salesmen in the organization about which I am now telling you were asked why their sales had dropped so sharply they gave a variety of reasons (excuses). Some said, the markets were unfavorable, or people were away, or it was too hot to work, and even the old shopworn classic that "the leads were no good" was trotted out at a sales meeting which was called to try and put some pep into things.

When the meeting adjourned it was evident that most of the trouble was not caused by outside circumstances but by the attitude of the men themselves. You can't build a business showing up at an office only once or twice a week; you can't keep in touch with your clients if you don't make the calls; you can't sell anything unless you have something to sell and believe in it. These men, like many others in sales work, were only fair weather salesmen and, quite frankly, the securities business is not always a "sunny sky" business, neither is any other for that matter.

### The Leads Were Good

After the meeting the sales manager got two of his men together and he put it on the table. Both these men were producing business right through the summer and the bear market. They agreed that some of the people in the organization were not working, nor were they thinking constructively. The three of them went over several hundred leads that had been assigned to members of the sales force that had made the excuses. They sorted them out and reassigned these NO GOOD leads which had been rejected. They sent out some double-return cards that produced about 3% replies. Within three weeks those leads produced several new accounts and some substantial commission checks. Every person sold was interested in obtaining more income. None of them were interested in following the stock market. None had even remembered that **anyone had ever called upon them from the firm in question.** Leads can't turn themselves into orders—you have to use salesmanship in order to do that.

Now this same group of leads will be given several more mailings and then an additional follow up will be made on those who answer, and also some who do not do so. There is nothing difficult about such a procedure. Mailing out a few hundred cards or letters and then following up is simple routine. The firm I am discussing this week is a small one but the same conditions exist in many large organizations.

The men who are doing business are those who keep at their jobs every day in the week. They follow up their opportunities, and their work is well done, because they keep their razor sharp by using it. When you find salesmen that blame the times, the markets, the leads, the firm, the weather, or anything else, you can be sure that the only one who is really at fault is that salesman.

There are times when you have to coast—there are times in the securities business when prudence dictates that customers should be urged to act conservatively. Farsighted salesmen over a year ago were counseling their clients to build up their reserves—we even wrote a few articles in the subject ourselves at that time. But there never was a time, nor will there ever be one, when a resourseful salesman who knows his business has to sit on his chair in the office and bemoan his fate—**there is always business around for the man who will work with his head and why uses it.**

Today you can sell short-term municipals to those who are afraid of everything and are on the side lines. Even if your profit in this business is small, you can build new accounts that can be converted latter into long-term investors. You can sell Mutual Funds for income and there are thousands of people in every community who will buy more income if you get out and locate them with a good advertising and follow-up campaign. You can sell municipals to those who could use tax-exemption and who don't know their many advantages. You can open some excellent accounts by using your knowledge of living trusts and the possibilities of protecting families from the inroads of excessive inheritance taxes. This business today is wide open for men who make a profession of advising the proper investments, and who know that if you want to do business you have to work at it.

# Morgan Stanley Group Underwrites National Bank of Detroit Offer

The National Bank of Detroit on Sept. 24 set a price of $45 per share on 313,200 shares now being offered to shareholders on the basis of one additional share for each five shares held of record Sept. 24, 1953, Charles T. Fisher, Jr., President, announced. Shareholders' rights to subscribe will expire Oct. 15, 1953. A nationwide group of investment firms headed by Morgan Stanley & Co. is underwriting the cash offering to shareholders.

These shares are part of 684,000 additional shares which were authorized for issuance at the special meeting on Sept. 24, and the balance, amounting to 370,800 shares, are to be distributed as a stock dividend at the rate of 19.732% payable to shareholders of record Oct. 22, 1953.

The stock dividend will be payable on the 313,200 additional shares now being offered for subscription as well as on the 1,566,000 shares presently outstanding, and will bring the total number of shares outstanding to 2,250,000. Upon completion of these steps total capital funds of the Bank will be increased to approximately $92,000,000 from $72,998,687 as of Aug. 31, 1953.

Mr. Fisher has reported that the directors expect to continue the present dividend of $2 per share per annum on the increased number of shares to be outstanding.

## Avery Eppler Adds

(Special to THE FINANCIAL CHRONICLE)

REDWOOD CITY, Calif.—Garfield Aiken has joined the staff of Avery L. Eppler Company, 1839 Broadway.

# Bank and Insurance Stocks

By H. E. JOHNSON

## This Week — Bank Stocks

Within the next few days the major banks will be issuing their operating reports and statements of condition for the period ended Sept. 30.

The trends which have been in evidence throughout the past year have continued to dominate operating conditions. As a result, earnings for the third quarter are expected to compare favorably with those of earlier periods and the same quarter of a year ago. Judging from the experience of the two previous quarters the gains are likely to be modest as against the level of earnings in the previous period although substantially higher than those of a year ago.

Of course there will be variations from institution to institution, with some banks because of special operating conditions, actually reporting profits below those of a year ago. The general pattern, however, should reveal a trend of gradually rising operating earnings.

For banks in the New York City area, the gain should average somewhere between 5% and 7½%. It may be that differences in accounting policies and the methods of accruing taxes and charging security losses will distort considerably the reported figures. Indications are, however, the operating earnings are currently about 6.5% higher than a year ago.

As in previous periods, the two most important factors making for improved earnings were the higher level of interest rates and a better average volume of loans.

Although in recent months there have been signs that interest rates have reached a peak and have, in fact, actually declined in some instances, the general level is still above a year ago.

For practically all of 1952 the prime rate at New York banks was maintained at 3.00%. This spring it was increased to 3.25%. Thus the banks have not as yet received the full benefit from the better rates now prevailing. At the same time rates on corporate and municipal bonds as well as Treasury obligations are higher. While the volume of such investments has not changed in most instances, the higher yields have improved the rate of return.

The better interest rates are most important in the current operating picture and should be emphasized. As another example of the change in rates, the return on Certificates of Indebtedness is of interest. In August of 1952 the open market rate on 9- to 12-month U. S. Government securities was 1.94%. In August of 1953 the same index of yields was 2.33%. Admittedly rates have declined in the past month but the average for the quarter is still substantially higher than a year ago.

The same pattern is applicable to municipals where an index on high grade issues provided a return of 2.22% in August of 1952, as against 2.88% in the same month of 1953.

These changes in rates have meant the banks have been able to employ their earning assets at more advantageous returns.

Another favorable factor has been the loan volume. In the first half of 1953 loans outstanding averaged 10% higher than a year ago. While the expansion since July has been less than in 1952, loan volume has still averaged close to 8% higher than last year.

Thus despite some loss of deposits, earning assets have been employed at better rates. Also, since early in July, New York banks have benefited from the reduction in reserve requirements from 24% of demand deposits to 22%. Larger operating expenses have been easily absorbed and operating earnings before taxes are substantially higher.

Tax accruals will again command considerable interest and to a large extent reported earnings will depend upon the treatment of this account. It is a known fact that most of the major banks have been engaged in an extensive program of establishing tax losses by switching of Governments and municipals. These losses enable the banks to directly reduce their tax liability and effect substantial savings. In many instances it is an effective method of minimizing the impact of the excess profits tax.

If such savings in taxes are included in the earnings statement and the losses are treated as capital items, the reported earnings gain accordingly. On the other hand, where the tax saving is deducted from the loss, there is little effect upon the operating earnings.

Various banks handle such problems differently and in analyzing statements allowances should be made for such differences.

Regardless of such considerations, however, the trend of operating earnings is upward and the reports to be issued in the coming week should be generally favorable for stockholders.



## Paul Davis Merges With Hornblower

The consolidation (Oct. 1) of the national organization of Hornblower & Weeks and Chicago's Paul H. Davis & Co. brings into existence one of the nation's largest brokerage and underwriting firms. The consolidation represents the culmination of a close relationship which has existed since the formation of Paul H. Davis & Co. in 1916. During this 37-year period, Hornblower & Weeks has been the New York correspondent and has cleared for the Davis firm.

Fifteen former partners of Paul H. Davis & Co. are being admitted today as general or limited partners of Hornblower & Weeks, and three additional offices are being added to the ten previously operated by Hornblower & Weeks. The new partners include Paul H. Davis, who will have both general and limited status, and the following general partners: Luther Dearborn, Louis J. Cross, Harry A. Trees, Hatfield Smith, Clifton P. Walker, Jr., and John J. Markham.

New limited partners are: Arthur W. Wakeley, Isaac C. Elston, Jr., Herbert I. Markham, Dean D. Francis, Arthur G. Lilly, Henry E. Greene, Franklin B. Evans and Mahlon O. Bradley.

Offices formerly maintained by Paul H. Davis & Co. in Peoria and Rockford, Illinois, are being taken over by Hornblower & Weeks. Simultaneously the firm is opening a new office in Chicago's Michigan Avenue, thus becoming the first investment firm to operate two offices in the Loop area. A total of 20 partners and 84 registered representatives will serve the two Chicago offices, and other western offices.

For many years Paul H. Davis & Co. has served as midwestern and western distributor of Fidelity Fund. This activity will be continued by Hornblower & Weeks. The correspondent function is being continued by the newly formed firm of Ralph W. Davis & Co., which will carry on the specialists and odd-lot activities on the Midwest Stock Exchange previously conducted by Paul H. Davis & Co.

## Joseph R. Carson With Hemphill Noyes

PHILADELPHIA, Pa. — Hemphill, Noyes & Co., 1530 Chestnut Street, members of principal securities exchanges, announce that Joseph R. Carson is now associated with them in Philadelphia as Manager of their Municipal Bond Department.

Joseph Carson

Following five years' service in World War II, Mr. Carson joined Kidder, Peabody & Co. In January, 1951, he became associated with Rambo, Close & Kerner, Inc. as Manager of their Municipal Department.

During the war, Mr. Carson served with the Army Signal Corps in the Mediterranean and European theatres, leaving service in 1946 with the rank of Lieut.-Colonel.

## A. M. Kidder Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

TAMPA, Fla.—Edward Buford is now with A. M. Kidder & Co., 506 Florida Avenue.

## George A. Winsor

George A. Winsor, member of the New York Stock Exchange, passed away on Sept. 17.

## Joins J. A. Lynch Staff

(Special to THE FINANCIAL CHRONICLE)

ST. CLOUD, Minn.—George S. Knight has become affiliated with J. A. Lynch Company, Incorporated, 616 Germain Street.

## A. G. Edwards Sons Add

(Special to THE FINANCIAL CHRONICLE)

BELLEVILLE, Ill.—William J. Bien is now with A. G. Edwards & Sons of St. Louis.

## With Sheridan Bogan

PHILADELPHIA, Pa. — Sheridan Bogan Paul & Co., Inc., 1528 Walnut Street, announces that William Wilson Hewitt is now associated with them as Manager of their Mutual Fund Department.

Continued from page 20

# Objectives of Federal Reserve Board

to another—are necessary to aid the growth of the economy and improvement of the standards of living for the people as a whole. Please note, I said "the people as a whole." We do not dispute that a dollars that keeps buying less and less would benefit some people, but we must not forget that our responsibility is not to some, but to all of the people.

When one is intent upon the welfare of the people as a whole, it seems strange to hear arguments which, stripped of their camouflage, are against a dollar of stable buying power and in favor of a dollar that will buy less each year. Nearly all American families have savings in some form —pension contributions, life insurance, savings accounts, savings bonds, or something else—upon which they will be depending in old age, if not before. Will they be helped by a cut in the buying power of their savings?

You and I know that one reason why this country has the highest standard of living in the world is that many have saved, and their savings have been invested—if not by them directly, then by the banks or life insurance companies or other institutions to which their savings were entrusted—in the tools and equipment that have helped achieve for America the greatest production in history. What incentive would there be to save if today's dollar saved were worth less and less each year?

During the two and one-half years in which the Federal Reserve has been following its present monetary policy, we have had, as I said at the outset, a high level of production and employment and a relatively stable level of prices. That may be some evidence of the worth of our policy, although these desirable conditions certainly did not result from monetary policy alone, and I would claim no more than this: conditions would not have been so good over this period, or today, had the Federal Reserve permitted credit to be created without limit.

### The Alternative—a Freeze of Credit or Its Uncontrol

If one is to pass judgment fairly and intelligently on present monetary policy, he must consider the alternative. Broadly—and at extremes—there are two alternatives implicit, if very seldom openly stated, in criticism that has come from two directions, sometimes from critics who seem to want to go in both directions at the same time.

One alternative would be to "freeze" credit at a fixed level, or even to reduce it. This would mean disregarding the fact that needs for money and credit increase in a growing economy. This alternative would stunt economic growth and lead to a contraction of production, employment, and purchasing power; and no one could guarantee that the ensuing downward spiral could be stopped at any point short of chaos. You and I want no part of that.

The other alternative would be to create credit without bothering about the extent to which it can be absorbed in normal operation and growth of the economy. But at a time when virtually all workers, plant, equipment, and natural resources are already employed and production is practically at the presently-achievable maximum, additional credit can only produce higher prices that benefit few and lower the standard of living of many. You and I want no part of that either.

Adherence to present Federal Reserve policy has meant that the available supply of money and credit has not been sufficient to meet all demands. And this in turn has meant that the cost of obtaining credit has risen. In other words, interest rates are higher. But let me emphasize that the Federal Reserve System is not interested in **promoting** higher interest rates. The choice is not between "high" and "low" rates. Rather, the choice lies between (1) letting interest rates rise—and fall—through the interplay of the demand for credit and a supply attuned to economic needs, and (2) on the other side, expanding the supply of credit to drive down — or hold down — interest rates, even though the excess credit thus created accomplishes nothing except a rise in prices. We have chosen the first course, in the belief that it is in the interest of the people as a whole.

Naturally, our choice has not been popular with some lenders, who could not obtain all of the funds they would like to lend, and with some would-be borrowers, who could not obtain as much credit as they would like. This is simply inevitable. I would doubt the efficacy of any governmental decision that was not greeted with catcalls by some group or other. Even the Harrison Act was unpopular with smugglers and peddlers of narcotics—although they were not in a position to vocalize their opposition effectively. Speed-limit laws doubtless are unpopular with those who would rather drive 80 than live to that age.

### "Greatest Good to Greatest Number"

When you boil it down, we simply try to apply John Stuart Mill's utilitarian principle—the greatest good for the greatest number—always bearing in mind that minorities also have rights, unless what they want is unduly injurious to others. And so it is that the very limited benefits of an uncontrolled money supply are overwhelmingly outweighed by the evils — not only unfairness to fixed-income groups and an arbitrary and irrational redistribution of purchasing power but, even more fundamental, the uncertainty and instability that discourage the planning, the effort, and the initiative on which our economic progress depends.

Some would have the Federal Reserve System support the prices of Government bonds at par—or higher. In World War II, when the Nation's survival was at stake, we did just that, as you know. The prop thus put under Government bond prices did keep interest rates low. But it had a consequence that became painfully apparent in the postwar period. Marketable Government bonds not maturing for a decade or more became, in reality, interest-bearing cash; and their conversion into Reserve Bank credit, at the owners' option, was the practical equivalent of pumping into the economy a virtually unlimited stream of newly printed dollars. The number of dollars rose faster than the volume of goods and services, and price inflation was the inevitable result.

Under the accord reached with the Treasury Department in March two years ago, this pegging arrangement was stopped. The artificial prop under the prices of Government securities being removed, those prices declined. Concurrently, of course, yields rose. But the significant point is that lending institutions lost their eagerness to convert bonds into Federal Reserve credit, and the business of turning promises-to-pay-in-the-future into lendable cash was checked. So was the slump in the buying power of the dollar that had been going on for years.

Now remember, that wasn't yesterday, or last June or January. It was two and one-half years ago. And it was not done to win votes or popularity, or to benefit any particular group, or faction, or section. It was done in the interest of all the people and with one simple purpose: to keep the expansion of credit within economically healthy bounds, so there would be no overswollen supply of money to bring on further shrinkage in the dollar's buying power—and eventually a boom-induced bust.

I do not say, or think, that the Federal Reserve System chalked up a flawless achievement in this undertaking. We have no omniscient supermen among us. In over a quarter of century of public service I have yet to encounter one — in or out of government. Rather than claiming superior wisdom, we disclaim it. This disclaimer is inherent in the policy of letting interest rates be determined by the forces of demand, in a freely functioning market, and by the forces of a supply that is geared to meet economic needs rather than to fix interest rates.

The Congress has made it clear that the guiding principle underlying the Federal Reserve's activities is the advancement of the public interest, particularly through the maintenance of "sound credit conditions," as the Federal Reserve Act puts it. Pursuant to this principle, the System attempts to make credit more available whenever that seems to be necessary or desirable for our country's continued economic progress, and to make credit less easily available when there is a threat of a detrimental overextension of credit. We consider it our duty to take action within our competence to aid in averting both inflation and deflation, while seeing to it that the economy is aided in its steady expansion by an adequate but not excessive supply of credit, the lifeblood of industry, agriculture, and commerce.

Our job is as simple as that—in purpose. In practice, it is no simple thing to determine exactly when action should be taken, and precisely what form of action it should be. There is, I might say, room for differences of opinion in these matters. In fact, on some recent occasions, that room seemed somewhat crowded! However, every decision is the final product of infinite pains in the gathering of enormous masses of factual information, the analysis of that information, and the formation of judgments and policies. We make mistakes, but we do our honest best to make right decisions, irrespective of pressures.

Even so, and in evidence of my thesis, there is considerable misunderstanding regarding our purposes and methods. When the Federal Reserve System refrains from buying Government securities for a month, rumors fly about that we have adopted a "hard money" policy; and when we enter the bill market again, a story gets around that we have reversed our policy and are out for "easy money" conditions. (Sometimes it has seemed there was more inspired trading in the rumor market than in the bond market.)

The extent to which such misunderstandings and rumors are disquieting to the financial and business communities is proof of the need for our united effort as trustees to proclaim the whole truth—and nothing but the truth. We have seen in our generation not only the awful power of the "big lie," but—skillfully used—of the little lie as well; the slanted statement, the crooked emphasis. It is up to us to reaffirm our confidence in the greater power, in the long run, of the "whole truth." It is more difficult; it is considerably duller, I am afraid; but it is the only salutary course open to us, and we must take it.

**Importance of a Renewed Respect For Truth and Candor**

Nothing is more important to this country today than a renewed respect for truth and candor, not only in governmental actions and statements, but in those of private citizens, for there—ultimately—is the measure of public morality, which can rise no higher than its source.

Although reluctant to play the role of Jeremiah, I feel obligated to speak out against the spreading tendency to talk carelessly and without due consideration, to repeat rumors that are probably baseless, to give a misleading twist to an otherwise truthful statement. All of us, public servants and private citizens alike, must reject the glib, the easy, the superficial, the deceptive — the kind of thinking and talking that too many of us have been doing increasingly in recent years. We must first make sure we know what we are talking about, and then speak out with utmost clarity and utmost honesty. In this sense we are all trustees not only for those who are technically an institution's *cestuis que trust*, but for all the American people, for whom we should hold in trust—and for distribution—understanding of basic economic truths.

We must realize that today's problems are worthy of solution, although seldom easy to solve. This realization, somehow or other, must permeate the attitude and the thinking of the American people. When the citizens of Athens met in the agora, they usually had a few simple problems that the average man could comprehend and vote upon with intelligence. Let us face the fact that this is not possible in the twentieth century. The complexity of our civilization and the magnitude of our problems make this approach impossible and impose on all of us a great responsibility to contribute toward public enlightenment.

The American way of life, in its factories, its transportation, its banks, is almost frighteningly complex. It takes a lifetime to master only one of its myriad phases. But this intricate mechanism is more than a machine. Its continued operation, and its values, depend upon the intelligence, the determination, the spirit of individual human beings. Eternal vigilance is the price of the wonderful structure we call Western civilization, which will stand only as long as its people retain and cultivate the qualities that gave it life—the simple virtues of energy, courage, honesty, and mutual trust.

## Halsey, Stuart Group Offer Utility Bonds

Halsey, Stuart & Co. Inc. and associates offered yesterday (Sept. 30) $3,000,000 of Worcester Gas Light Co. first mortgage sinking fund 4% bonds, series B, due Sept. 1, 1973, at 101⅜% and accrued interest, to yield 3.90%. Award of the issue was won by the group at competitive sale on Sept. 28 on a bid of 100.439%.

Of the net proceeds from the sale of the bonds, $1,394,000 will be used by the company to retire an unsecured 3½% serial note due July 1, 1971 held by Cambridge Gas Light Co., an associate company; $500,000 will be used to retire notes payable to The First National Bank of Boston, due Dec. 31, 1954, which were incurred in connection with the company's plant improvement program subsequent to Oct. 31, 1948. The balance of the proceeds will be used to reimburse the company's Plant Replacement Fund for expenditures made for additions to property, plant and equipment since Oct. 31, 1948.

The bonds will be redeemable, at the option of the company, at general redemption prices ranging from 104.875% to par, or for the sinking fund at prices ranging from 101.38% to par, plus accrued interest in each case.

The Worcester Gas Light Co. is engaged principally in the distribution and sale of natural gas in 28 communities in eastern and central Massachusetts, having an approximate year-round population of 453,000 in 1950, compared with 407,000 in 1940, according to the United States Census. The company also sells appliances, both through direct sales and through cooperation with other retail dealers.

Operating revenues for the twelve months ended June 30, 1953 were reported at $7,013,483 and net income was $537,403. Giving effect to the current financing, outstanding capitalization of the company will consist of $5,928,450 of long-term debt; and 350,000 shares of common stock.

Also participating in the offering are: Salomon Bros. & Hutzler; Dick & Merle-Smith; and Stroud & Co., Inc.

Continued from page 3

# The Market Today and Tomorrow

say that it was the psychology of the market place and this factor perhaps has more to do with shaping security prices than anything else.

I am going to try to break down these three factors into component parts and finally try to fit them into a forecast of market action. Let me say at the onset, that while I read literally thousands of company reports every year, and endeavor to keep up-to-date with company earnings outlooks, economic and business releases from all over the country, including those from the Department of Commerce and other departments and in addition read most of the financial services, and attend numerous analyst meetings in New York, that I have specialized in and spent more time in studying the technical side of the market and thus, coining new words, I call myself a "securitician" or "technalasyst."

### Factors Making for Alarm

You all probably know the detailed fundamental business picture much better than I do. You have access to current figures and forecasts on what the highly important motor industry is thinking and planning for 1954. You have also been reading, as I have, about the long heralded business recession that will take place, and that a drop of 10% to 15% or about 30 points in the F. R. B. Index is expected for next year. You doubtless have also sharpened your pencils and have figured out what such a setback should do to the earnings of companies in various defense associated industries, and you probably have estimated rather generously what the tax cushion would be on individual companies operating under a large E. P. T. bracket when this inequitable tax expires on Jan. 1 as we expect. You have noted a big decline in commodity prices as measured by a drop from 215 to 154-155 in the Dow-Jones index of commodity futures during the past two years. You have considered with apprehension the increases in money rates, the rising inventories on manufacturers' shelves, and the large amount of installment credit outstanding. You are aware of the fact that while our defense program will continue at a high level that the big backlogs are falling off and that additional plant and equipment for that purpose has been substantially completed. You have been alarmed that much of the expansion in this productive capacity has been made at the highest cost in history; and at high break even levels and that any serious decline in sales would cause the dividing line between profit and loss to grow narrower.

In general, then, you are fully aware that the business machine is slowing down, but not falling apart at the seams, and that a severe testing period for industry lies immediately ahead. This testing, or what I like to call a readjustment period, is going to resolve the argument of the bulls and the bears over the past two years. Let me emphatically state that we are not dealing in the same over valued equities we traded in 20 years ago. Dividend pay-outs have been moderately low during the past two years. Intrinsic values have been increasing. The book value on the Dow in 1937 was $90 a share and is now about $225.

### Unprecedented Values

People on all sides have been saying that many stocks are pretty high, but they overlook added asset and earning power, and it seems to me in this connection, that stocks today represent more earnings, more dividends and more physical assets per share than they ever have before, and are therefore relatively much cheaper than in former years, especially if we take into account our present substantially inflated dollar. Today, by all the traditional shopworn measurements, analysts are estimating earnings on the Dow-Jones industrial stocks for 1953 at upwards of $25, even after higher taxes, with a dividend pay-out of $15 a share. Thus, the Dow stocks are selling less than ten times earnings, and yielding over 6%. In the past, when the Dow was selling up in this area, stocks sold between 15 and 20 times earnings and never below 15 and at yields less than 5%. Even at the 1937 and 1946 tops, the earnings ratio was about 20 times on the industrials and at around 11 times on the rails. Today they are selling at about one-half those ratios. So, it seems to me that we have been passing through a relatively low appraisal era based on earnings. You will say that all markets are different, that history does not repeat, and that you seldom have a meeting of the same factors twice in the stock market. On this I will agree, except to say that the speculative and investment defeatism of today seems just as unreasonable as the blind optimism of other periods. Certainly any lessened prosperity in 1953-1954 cannot come as a surprise. Isn't it possible that this readjustment phase, as I call it, may linger on for some longer period of time?

At any rate, when the complete history of this stock market period is written, I think that the conclusion will be that the long upward trend remained in force regardless of the recent bear market Dow signal, mainly because first there was no great overspeculation or period of over-valuation immediately prior to this recent setback, especially in the second and third class securities, and secondly because many stocks were not carried to the high price times earnings ratios that prevailed at previous bull market tops. I was interested to note recently that one of our leading statistical services is estimating earnings on 125 industrial stocks at the rate of $7.50 for the first quarter of 1954 which is better than last year, so all may not be lost. Lower taxes projected for 1954 could mean that many companies might report higher net earnings in 1954 than this year.

### The Technical Side

Now let us discuss briefly the value of the study of the technical side of the market. It is a statistically provable fact that about 75% of the fluctuation in stock prices is caused by changes in earnings and dividends. If earnings and dividends are satisfactory and stay so, stock prices will take care of themselves, but if this was the whole story our problems would be greatly simplified. An investor making his market commitments solely on estimated value based on earnings is often misled and eventually disillusioned.

To illustrate this point more clearly, let me give you a few examples: Sears, Roebuck rose from 40 to 62, while earnings fell off in the 1950-1952 period from $6.08 to $4.56 a share. In the same interval we find Minneapolis-Honeywell going from a low of 32 to 62, while earnings dropped from $4.78 to $3 a share. The reverse is illustrated in the case of United Airlines. Earnings have increased from $2.90 to $4.03 a share since 1950, yet the current price of 23 is 11 points below the high level for this stock. Dresser Industries, whose earnings and dividends have both increased since 1950, has declined from 27 to 18 in this same period.

These brief illustrations show that the price of a stock does not necessarily follow earnings, but is also influenced by the underlying attitude on the part of the investing public which constantly changes its evaluation of profits, rating earnings higher in some industries and lower in others. In fact, in the past 15 years there were only three times when stock prices actually followed earnings. This is where the technician comes in. He has devised literally hundreds of methods — a whole battery of tools that purport to show us the way that stock prices will move. It is self-evident that no system of interpreting the movements of the averages has yet been formulated which can accurately reveal the true situation within the stock market and precisely and without error forecast its movements. Too many theories tend to contradict each other.

I prefer using just one or two and I have enough trouble with those. This technical side of market analysis should never be used exclusively, for the technician makes his greatest mistakes when he disregards basic fundamental statistics and long range factors which affect our economy. The use of the technical approach alone makes the chartist an easy mark for the fundamentalist who directs a continuous line of ridicule at the technician's serious work and often attempts to classify him with astrologers, Ouija board operators and spiritualists. They call it a persistant delusion. Many times such criticism is merited. Actually having used some of these technical tools for many years and despite the many mistakes I have made in interpretation, one such only recently in not conceding price levels as low as were established this month, I still believe that they have a very important value in the overall investment picture. I like to think of the two approaches, fundamental and technical, as one of constant teamwork. You can see pretty well with one eye, but since you have two, why not use both.

Let me give you one example. Over seven months ago there came across my desk a very exhaustive and excellent study on the textile industry with the conclusion that the stocks in this group were under-valued by all fundamental statistics. Yet, technically, there was no evidence at that time that the bottom had been reached in this group of stocks. Consultation and teamwork with a technician might have delayed publication of this study until today when prices bear a much more realistic relation to present prospects, after over a 20% decline during this period. Certainly this market as a whole has had none of the overall characteristics of a bull market top such as witnessed in 1937 and 1946 in each of which years most stocks made their highs within a period of six months. In the present market which began its primary forward movement in June, 1949, many stocks made their highs over two years ago, many others over a year ago, and still others have been in a declining trend since January this year. For example, the drug stocks started up in 1948, had an excellent recovery to September, 1951 and have been in a bear trend ever since. At the same time, the aircraft and tobacco stocks started up in 1948 and have not stopped yet. The steel and textile stocks made their tops in February 1951 and have since been in a declining trend. The metal stocks made their peaks in January 1952 and have been in a very substantial decline ever since. The oil stocks made their highs in July 1952. On the other hand, the utilities started up in 1949, have strongly resisted the recent setback and continue to indicate higher levels.

Going back a little further, the natural gas stocks started up almost eight years ago in 1946, and have been in a slow uptrend for most of that long period of time. With respect to a few individual stocks, exactly a year ago today, when the Dow-Jones industrial averages were selling at 270, it is interesting to note that Safeway Stores was selling at 31, now 3?; American Tobacco 56, now 72; United Aircraft 35, now 38; Carrier 28, now 36; Continental Can 43, now 52; General Foods 49, now 55, and yet Anaconda selling then at 42 is now 30; Celanese 41, now 22; Chrysler 85, now 64; Johns-Manville 74, now 59; Deere 32, is now 24 and Standard Oil of New Jersey 76 is now 68. So, I cannot agree entirely that the market top made at 295 D.J. last January was the real top of the bull market.

These are reasons why it has been so hard for the analysts and for the technicians to discuss the market as a unit and in all my market reports, both weekly and monthly, I have run the risk of boring my readers by my repeated references to extreme selectivity. They are also reasons why it seems completely illogical to talk of a complete bear market at this time when over 70% of the stocks on the Exchange are selling below their 1946 highs, and are actually selling not far away from their 1946-1949 low levels, and when 80% of the stocks have been in a declining phase since 1951. This piecemeal price adjustment process in the stock market which is accompanying the country's transition from a war-peace economy towards an eventual peace economy will very likely continue for some time and the readjustment process will be very slow.

### The Psychological Side

Finally there is the psychological side of the market which is tied in very closely to the technical approach, but in a somewhat different way. Who can rightfully say that he knows how the millions who buy or sell securities will react to the many events that are likely to occur in the foreseeable future. We can use all the yardsticks of statistics and other measurements of the past and some of the technical tools, but sometimes a bolt out of the blue like the "Fall of France," "Pearl Harbor," the "Korean War," or even the election results in 1948 give both the fundamentalists and the technicians more than they can immediately understand or interpret in terms of mass investor psychology. In 1946, the fundamentalists were predominantly bullish both on business and the market, but the stampede in the fall threw the fundamentalists a little off balance, but not the qualified technicians who saw the storm clouds gathering as early as June that year. While the public can go to wild extremes of optimism and pessimism, the market anticipates these fundamental changes and often discounts them a long way ahead. Quite often these changes in psychology are not timed to fundamental changes, and very often the stock market will anticipate a fundamental change in the economic picture and discount it. This is what is happening today. Investment and speculative psychology have received a body blow lately, and while I recognize this change in sentiment and this discounting phase, it seems to me from a study of all the factors, that this is not the time to follow the crowd and rush for the hills.

### What Now?

And now we come to the $64 question that you and everyone else want to know the answer to. What is the market going to do from this point on? All I can do in answering this question is to give you the benefit of my best opinion after considering all the technical, fundamental and psychological factors at my command. Let me say at this point, that I realize that I am going counter to the advice given me when I first entered this business, and which was, "Don't ever prophesy. If you prophesy wrong, nobody will forget it, and if you prophesy right, nobody will remember it."

First, from studying the fundamentals, and I am not an economist, I very much doubt that we should expect a serious recession. While the F.R.B. Index will probably decline to around 210-220, people will come to realize that business is not going to collapse in 1954. These things we know and have been hearing about for a long time:

(1) That corporation profits will be down, but since the market has never over-valued previous good earnings by the well-known yardsticks mentioned earlier in this talk, the market cannot have very far to go down if the business letup does not exceed my present expectations.

(2) Dividend pay-outs have been extremely conservative for a long time, about 60% overall, and they are not likely to be cut unless there is a drastic decline in earnings. The end of the E.P.T. for many corporations should tend to offset a good portion of any drop in earnings and thinning of profit margins. This should apply to companies such as du Pont, Borg-Warner, General Electric, General Motors, Chrysler, Sperry, Bendix and a host of others. We are also looking forward to the promised 10% cut in individual taxes next year which will tend to maintain and actually increase consumer spending power.

(3) We are still spending huge sums for defense, about $50 billion even with the recently announced reduction, and this will continue to be an important sustaining influence.

(4) We know that the Administration has previously been committed to a hard money policy and a balanced budget, but we hope they can encourage a rotating readjustment with this honest money program, and there is good reason to believe that as experienced businessmen, those in the Treasury Department will promptly put into use some of the many devices at their command to forestall a serious business slump. The government certainly has a responsible interest in prosperity, especially for 1954.

These things we know, especially that we are going to have this business recession which has been so well advertised that business men have been cautious for a long time; have lowered inventories, discarded less profitable lines; have effected operating efficiencies, and have put their house in order, so to speak. In other words, people are pretty well prepared for this recession, and the hope that we all have is that this recent setback in the market will not have such a serious impact on business as to cause corporate earnings to decline much further in the months to come than generally expected. We don't know about that yet, but it's hard to think of any business shock that we haven't pretty carefully considered.

### The Charts

At this point, when so much confusion and uncertainty exists, I turn to the charts to have a better look and see if I can read into them some of the story that is unfolding before us. Sometimes the most logical interpretation of the value of a stock does not follow earnings, but discounts a declining trend for many months in advance. There is still a very widely divergent mixed pattern in this market. As I have previously indicated, we find a good deal of evidence that many individual stocks and groups of stocks have been in a bear market for some time, a bear market within a bull market. We also see evidence of weakened technical patterns in many issues which indicate lower levels, and then there are some stocks that are already showing signs of slowly bottoming out in preparation for a renewed advance. The price action of each stock tells its own story. The timing of purchases and sales of individual stocks is just as important as the selection of the stock. One thing is perfectly apparent from a study of these charts, and this is that on an overall basis, as a result of the recent setback, it will take much more time for the market to go through a further readjustment period and lay a strong base for the next upward trend. It is also very apparent that there are many sound values selling at depressed levels with good dividend yields that should be bought on any further periods of weakness. In this type of market action all stocks will not make their lows at the same time.

With this preamble, let's get down to cases and discuss the Dow-Jones averages, groups of stocks and individual stocks.

The averages, the often misleading, deceptive and outmoded Dow industrial average, which does not begin to tell the story, has sold down in a series of three legs of about 20 points each during the year with the third leg decline signalling a bear market under the Dow theory. The first leg down broke from 292 in March to 270 in April, or 22 points, the second one stared from 281 in May, declining to 261 in June, or 20 points, and the third leg dropped from 278 in August to 255 in September, a 23 point fall. By coincidence, the volume and extent on each one of these downward thrusts has been approximately the same. A fourth downward leg of 20 points from the estimated top of the current recovery from the earlier September lows would take the Dow-Jones industrials to approximately the 240-245 level. I am not at all sure that we are going to have that fourth leg, but it is perfectly possible. The 255 level has so far presented a pretty strong "Maginot Line" on a selling climax and strange to say some actual necessitous margin selling. As I see the short-term picture, I would expect a further period of backing and filling or base building for the next week or 10 days, and then another upward move until early or mid-October to 266-268 D. J. Then I would expect another testing period and that is the big $64 question mark whether the 255 level will hold. After that, the inevitable strong year-end rally into January, and again another setback in early 1954.

**Stock Groups Considered**

Looking at the broader view, the technical pattern indicates a great deal longer period of price readjustment and testing period before the bull trend as a unit can be renewed to any great extent. Unfortunately, this may take four to six months. In the meantime, there are many groups of stocks which should have worthwhile upward moves during this period of broader reaccumulation. Just as my chart work during the past two years has shown that various groups of stocks have gone through extreme divergent price action, so again technical studies show very clearly that we are facing a somewhat similar period for the next few months at least.

The following groups of stocks should out-perform the averages during the period ahead: aircrafts, television, food and food chain, drug and natural gas. Of these the aircraft stocks have recently shown outstanding strength. I especially favor Lockheed, United Aircraft, Republic Aviation, Boeing and Douglas. The television stocks appear to be rebuilding a base for another upward swing this fall. Several look especially attractive particularly, Admiral, Motorola, Zenith and Radio. The textiles, liquors, department stores, airlines, automobile, auto equipment, motion picture and mining and smelting are among groups which appear pretty well sold out and entitled to a good recovery from current levels. Steels, oils, rails, and railroad equipment are not particularly interesting at the present time. A few comments on three of these groups is necessary. The rails, selling at less than five times current earnings, with yields of 7% on the average are obviously looking well beyond the 1953 earnings results and would have to suffer some pretty sharp drops in earnings before making present prices look excessive. They would not benefit under EPT expiration. They are entitled to some further recovery from present prices, but should run into resistance between present levels and 100-102 D. J. The oils show different patterns. Some are reaching buying levels, particularly Phillips, Pure, Cities Service, Socony, Ohio and Union Oil of California. Others will have to go through a considerable amount of work before going very much higher and still other oil stocks such as Warren Petroleum, Texas Gulf Producers, Houston and Texas look a little lower.

This group of stocks, now yielding over 6% on the average, should be held for long term, but additional purchases are advised, especially in producing companies, only on periods of weakness. The steels have broken important resistance levels, and while it is difficult to justify much lower levels even on a further reduced basis of operations, it is my belief that this group will prove unattractive for much price appreciation for the present, and new purchases should be avoided for the time being. From a technical angle, I doubt very much that Republic Steel will sell much below 38-40, Bethlehem below 41-42, U. S. Steel below the 31-32 level. The rubber stocks are gradually reaching an over-sold area, and I doubt that Goodyear will sell below 39-40, U. S. Rubber below 21-22, Firestone below 47-50 and Goodrich below 55-57.

**Switch From Tobaccos to Coppers**

Brief comments on other groups. The tobacco stocks strangely enough appear in rather high territory and while investment position should be held, this group should have a moderate correction before new purchases can be recommended. Last year on this date, the leading copper stocks were selling about 14 points higher than the leading tobaccos. Today, the position is reversed and perhaps a switch from tobaccos to the coppers will prove profitable. Some of the chemicals look interesting again. I'd like to buy American Cyanamid at 40, Mathieson at 33-34, du Pont at around 90-92, and Dow at 31-32. The ethical drug stocks look like good buys. Merck at 16-17, Abbott at 38-39 and Pfizer at 26-28. The utilities in holding above their June lows on the averages have shown relatively better price action than the industrials and rails. While slow, this group is in a pretty strong technical position to carry to new highs. I favor the electric power and light companies. The net income of this group is expected to be 10% higher than 1952.

The farm equipment stocks appear pretty well over-sold. Some such as Case are down over 60% from their 1951 high; Deere down from 37 between present price and 20; Allis Chalmers between present price and possible new low of 36-37 are favored. The building industry stocks should hold up pretty well next year even though residential building will decline. Stocks favored are Armstrong Cork, Otis Elevator, Pittsburgh Plate Glass, Rubberoid and Johns-Manville. If the economists are right in telling us that consumer spending power will reach a new high, especially when the 10% reduction in personal income tax takes place, then some of this marginal excess income is bound to seep through into department stores. Favor Allied Stores, Associated Dry Goods and Federated, and cannot overlook the strong technical pattern of Marshall Field and Gimbels at this time.

**Other Attractive Issues**

A number of other issues I'm interested in buying some time in the period ahead if they reach indicated prices are: Carrier under 30; Cincinnati Milling Machine at 36-38; General Motors at 48-50; Reynolds Metals at 38-40, Borg-Warner at 60-62; Libby-Owens-Ford at 31-32; Worthington Corp. at 24-26; Montgomery Ward at 50-52; Continental Baking at 18-19, Bendix at 47-48; Freeport Sulphur at 36-37; Climax Molybdenum at 30-31; Vanadium at 28-30; Aluminum Corp. at 39-40; Westinghouse at 36-37; Food Machinery at 30-32; Lone Star Cement at 23-24 and Columbia Broadcasting at 36-38. If you're looking for defensive issues, how about stocks such as Corn Products, American Tel. & Tel., Safeway, Scott Paper, General Foods, Colgate Palmolive, American Stores, J. C. Penny, Borden, Swift, National Lead and Eastman Kodak to name a few.

This covers some of the highlights of various groups of stocks. In general this is not the time to get frightened and sell long term holdings. It is certainly not the time to bet the bankroll. Rather, it looks like the time to look over portfolios very carefully and prepare them for the next upward phase that I'm sure will take place, and that presently is in a slow process of reforming. From a timing phase, this unwinding or readjustment phase has a good chance of being concluded during the last quarter of the year. Certainly the market should be starting on its upward course not later than April 1954. As often happens, prices will probably be rising before the low point in any recession is reached. As I said before, many stocks are available at price levels which offer and will continue to offer sound values and attractive dividend yields. Unless the business picture deteriorates much faster than anticipated, a lot of this discounting has already taken place, and to be too bearish now is unrealistic. It is well to remember that booms generally end when everyone is optimistic, not when the outlook is shrouded with pessimism and gloom as it is today. Above all, remember you don't buy the market averages any more, you buy individual stocks.

## Women's Finance Forum Meet in Chicago

CHICAGO, Ill. — The Women's Finance Forum starts its 19th year's program with its first meeting on Oct. 1. The Forum is the first women's organization whose sole purpose was to enlighten women concerning finance and related subjects for their own benefit. It was the first women's organization to hold ts meeting on the Trading Floor of the Chicago Stock Exchange and in the quarters of the leading brokerage and investment houses. Again, it was a first in operating a Women's Investment Program—W.I.P. —a workshop experiment in which stocks are actually investigated, studied and then actually bought and sold. A portfolio of stocks has been in operation for four years.

With many years of experience behind them under the able leadership of Mrs. Lorraine Blair, the club continues under her leadership in planning a program of three phases. First, regular meetings at which selected speakers who are leaders in their fields discuss various industries and new developments in those industries. At the end of each of these programs an open forum is held between guests and a panel of investment authorities from financial firms. Oct. 1 will be highlighted by a banquet at the Midland Hotel in Chicago starting at 6 p.m. John P. Chase, Investment Consultant will speak on the "International Situation and Securities."

The second phase is the operation of the Investment Program in Workshop methods. Members meet in committees for study and consideration of investments and then combine for reports and voting on purchases and sales of shares in the portfolio. These committees meet every third Thursday, starting Oct. 15.

The third phase of the Forum program is the holding of ten weekly sessions on Personal Money Management to give students a basic understanding of all phases of finance—banking, insurance, real estate, stocks and bonds, and wills and trusts. This class, the first of which starts Monday, Oct. 5, is repeated from time to time as new students are enrolled.

Women who are interested in keeping up with current economic conditions and want to learn about investing will find this group educational and worthwhile. If more information is desired, call Dearborn 2-5636.

## Arthur Hoffmann With Mullaney, Wells Co.

CHICAGO, Ill. — Arthur M. Hoffmann, formerly manager of the municipal bond department of Paul H. Davis & Co., will join Mullaney, Wells and Company, 135 South La Salle Street, as Vice-President on October 1, Paul L. Mullaney, President, announced. Mr. Hoffmann is a graduate of New York University School of Business and Finance and started in Wall Street with B. J. Van Ingen & Co.

In 1923 he organized his own firm, Hoffmann and Company in New York and in 1937 came to Chicago as Vice-President of Morris Mather & Co. In 1947 he joined Paul H. Davis & Co.

## Reilly and Staff Join Burnham Co.

Burnham and Company, 15 Broad Street, New York City, members of the New York Stock Exchange, has announced that John F. Reilly has become Manager of their Unlisted Trading Department. This follows the dissolution of J. F. Reilly & Co. as of Sept. 28, with Joseph F. Kelly, Robert W. Payne, Jack B. Wielar and other key personnel moving to Burnham and Company.


John F. Reilly

Mr. Reilly started on Wall Street in 1924. In 1934 he formed J. F. Reilly & Co., with branches in Chicago and Boston. He became a member of the Exchange in 1947, and three years later sold his membership to reorganize J. F. Reilly & Co., Inc.

Messrs. Kelly and Wielar prior to their association with Mr. Reilly, were with J. Arthur Warner & Co. for approximately 17 years. Mr. Payne until recently was Trading Manager of the local office of Courts & Co.

## E. T. Gernon Joins A. C. Allyn & Co.

MADISON, Wis. — Edward T. Gernon has become associated with A. C. Allyn & Co., 119 East Washington Avenue. Mr. Gernon was formerly manager of the local office of Ames, Emerich & Co., Inc., which has been discontinued.

## Three With Du Pont

CHICAGO, Ill. — Einar Graff, Charles Goldman and Roger A. Stefany have become associated with Francis I. du Pont & Co., 208 South La Salle Street. Mr. Graff was formerly with Link, Gorman, Peck & Co. Mr. Goldman in the past was with Sincere and Company.

## Joins White, Weld Co.

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—Paul J. Anderson has become associated with White, Weld & Co. Mr. Anderson was formerly with Hemphill, Noyes & Co. and Sheilds & Company.



## *Our Reporter on Governments*

By JOHN T. CHIPPENDALE, JR.

It seems as though the "cleansing process" which some believe the economy is going through, as well as the abrupt withdrawal of the Series "B" tax saving notes because the Series C issue with a lower rate is being substituted, is having a favorable influence upon the thinking of a great many operators in the money markets toward government securities. The reduced rate for the new tax saving notes reverses the trend which has been in effect since the present Administration took over. This surprise action most likely indicates a more favorable rate for tax anticipation bills or notes which the Treasury will probably issue in the near future. The slow down in the economy is expected to bring with it lower interest rates which, in turn, means higher government security prices. The demand for commercial loans as well as for mortgages and consumer's loans are expected to decline and this should make more funds available for government obligations. Also, there seems to be strong opinions around that it will be purely a matter of time before reserve requirements will be lowered again.

The longer end of the government market continues to hold the attention of buyers of Treasury issues even though there is greater volume and activity in the intermediate and short-term obligations. The 3¼% bond, and the longer-term 2½s, have been neck in neck in the race for the market leadership.

### Long Bonds in Strong Demand

The bullishness in the government market has had a very favorable effect upon quotations of these securities, with the largest gains being shown in the longer end of the list. It appears as though the changed attitude toward the money market, especially the more distant maturities, has brought about a repetition of conditions that always seem to exist when prices are moving up, everyone is a buyer and there are no sellers. However, this does not go on indefinitely because sooner or later quotations reach levels where profits will be taken and when this does happen it does not take too much time to take a good part of the professionalism out of a market.

Although there has been some important buying of the longer term treasuries, which means these bonds have gone into strong hands, there has been, nevertheless, a great deal of "quoting up" which has effected the prices of these issues with practically no securities changing hands. This is the professional side of the situation which has been very instrumental in moving up quotations of these obligations. There does appear to be, nonetheless, a real feeling around that the peak has been reached in money rates and this goes for the long-term ones as well as the short and intermediate rates.

### Peak Reached in Long Rate

There is, however, a bit of a hedge as far as the most distant rates are concerned because the debt management policy of the monetary authorities is looked upon as a factor that must be watched very carefully because this will have an influence upon what happens to long-term interest rates. If there are to be no repetitions of what happened earlier in the year, and there are strong indications there will not be, then the peak has quite likely been seen in long-term rates, according to many close followers of the money markets.

### 3¼s of 1983 Moving Higher

Some of the holders of the 3¼s due 1978/83 believe that much higher prices are in store for this bond. This opinion is based upon the belief that there is not likely to be a reopening of the 3¼% issue because if interest rates should tend to decline, as it is believed they will, then the Treasury in future refundings and financing will be able to use a lower rate than 3¼% for long-term operations. Such a development would have a very favorable effect upon the only real long-term treasury bond.

### Uptrend in 2½% Issues

The uptrend in the 2½% bonds, the restricted issues as well as the bank obligations, has had a very favorable effect upon the owners of these securities because there has always been a feeling among them that these bonds should never have been allowed to go down to the levels that they did reach. The price betterment has enabled quite a number of the smaller banks who are the largest holders of these securities to make tax switches which they were not inclined to do when quotations were lower.

### Other Issues Reflect Confidence

The intermediate and short-term securities are still very much in demand even though the more distant issues seem to have the center of the stage. Volume and activity is far larger in these obligations than it is in the longer term bonds which means there is a real close two-way market with size in the short and middle term issues.

Switches continue to be one of the main sources of activity in the government market with not a few institutions making important tax adjustments during the third quarter which has just come to a close.

According to reports, there has been a fairly sizable amount of the partially exempt issues changing hands with a large part of the proceeds from the sale of these securities going into state and municipal bonds. It is also indicated that not a few of the tax sheltered treasuries have been replaced with the government guaranteed housing bonds.

## Joins Slayton Staff

(Special to The Financial Chronicle)

ST. LOUIS, Mo. — Walter T. Grimmer has become affiliated with Slayton & Company, Inc., 408 Olive Street.

## With Ellis & Co.

(Special to The Financial Chronicle)

CINCINNATI, Ohio—Robert B. Shott has become connected with Ellis & Co., Dixie Terminal Building.

*Continued from page 14*

# We Must Stop Socialistic Trends And Return to Solvency

radio address that "we live, not in an instant of peril but in an age of peril; a time of tension and watchfulness." I do not propose to digress into the multitude of problems which our national preparedness entails. However, in determining the nature and amount of our spending for defense, it was essential that the Congress bear in mind the distinction which the President had expressed. It being an age of peril and not a fleeting instant of danger which confronts this nation today, it was necessary and continues to be necessary that we think in terms of long-range needs; not only protection for the present but security for the future. I am certain that our aim was accomplished and that we introduced a rigid economy without loss of strength.

Secondly, the reductions were judged on the basis of a dollar's worth of return for every one of the taxpayers' dollars which was spent. This seemingly evident concept appears to have escaped the New Deal economists completely. Yet, how many are there among us who do not insist on full value for our dollars in the purchase of food, clothing and the other necesities of life. Accordingly, our committee was insistent that waste and extravagance be eliminated, that overlapping of agencies and duplication of functions be removed, and that there be an end to such matters as top-heavy and overloaded payrolls, excessive travel allowances and the many other drains upon the public treasury. In this program we had the fullest support of the President and of Administration leaders who, after all, are charged with the responsibility of spending the monies appropriated.

The third phase of our formula for achieving sound reductions and a healthy atmosphere in government, and the one I should like to emphasize particularly today, was based upon the mandate of the people as expressed last November that further encroachments by the Federal Government into the field of private enterprise should terminate; except in those areas where private enterprise was unable or unwilling to function or where, for reasons of national security or national interest, private enterprise could not operate. And even in these fields, we insisted that government operations should be supplemented by contracts with private enterprise wherever possible.

### Stop Planning for Socialism

Perhaps the most tragic series of occurrences of the past two decades, or of our entire history, have been those manifestations of socialistic thinking and planning in the "New Deal" and "Fair Deal" Administrations. The time has come to stop planning for socialism and begin planning to make our free system of private enterprise function in its true capacity. The fact that in 1952 over 19 million people in this country were on one form or other of the public payroll is a sign of danger that should not be ignored. Assuming that millions of this group who draw Federal salaries or pensions are heads of families, the total number of individual Americans who enjoy direct government subsidy becomes a shocking one. It is little wonder that we heard the New Dealers talk of the "welfare state." Our system of capitalism remains as our strength only so long as it is permitted to operate at its fullest efficiency. Government intrusion in the realm of private enterprise, compounded by confiscatory taxes to finance additional intrusions, can only have the eventual effect of bankrupting our wealth and sapping our initiative. Unfortunately, it is little understood or appreciated that such bureaucratic excursions into business as the Tennessee Valley Authority not only cost the taxpayers millions of dollars but have what may be the more serious effect of inhibiting the flow of industrial capital. The guerrilla warfare that has been waged by this government against the free flow and use of capital and against the encouragement of American initiative since 1933, can no longer be tolerated. If war is not launched against us by the Soviet Union in this or the next few years, we may well suppose that the Kremlin proposes to wait while we destroy our own economy and thereby pave the way for our own defeat. There is no question in my mind but that Russia would be pleased to see this nation spend its way into bankruptcy. This will not happen if there is a reintroduction of American industry as a vital working partner in the economic life of this country. The present Administration proposes to insure that such be done.

A graphic example of the new philosophy, and one which illustrates the economy to be found in government if only the effort is made, is in a recent transaction of the Department of Commerce; a business transaction in the public interest. That department recently returned to private enterprise and to the nation's tax rolls the Federally-owned Inland Waterways Corporation, a barge line operating on certain rivers in the south and mid-west. This corporation had been a constant burden on the taxpayers, losing money in 12 of the last 14 years to the extent of nearly $10 million. The Secretary of Commerce obtained a sales price of $9 million for this property, which represented the highest price that had ever been offered. In addition to this amount, the quick assets of the Corporation should net for the taxpayers approximately $2.7 million in cash and accounts receivable. The buyer has agreed to provide more working capital amounting to $1 million. Thus, the businessmen in the Eisenhower Administration made an excellent business deal for the public. They provided by contract for the purchaser to furnish adequate services for the small, as well as the large, shipper, they arranged for the buyer to help the workers by taking over existing labor contracts and in short they have removed the government from competition with private enterprise.

### Economizing Not an Easy Task

The task of economizing is not a small one nor is it easy to accomplish. Speaking from my personal experience, I cannot recall that the Appropriations Committee has ever worked harder or spent longer hours than during this recent session. Committee members, Republican and Democrat alike, labored from early morning until late at night to achieve a sound and economical budget for each department of government. The members of the Committee and its several subcommittees worked without stint of their time and energies to produce bills which, I am convinced, have laid the groundwork for efficient and economical operation of government for the fiscal years to come.

What is the significance of the sweeping cuts in governmental expenditures insofar as our national economy is concerned? Does it mean that we shall immediately have a balanced economy—that is, where expenditures are balanced by receipts? Does it mean that immediate reduction in the immediate tax burden shall thereby release more of the individual taxpayer's income for savings and retail consumption? Unfortunately, the answer is no to both of these questions. Elimination of wasteful spending is not an immediate panacea for all of our troubles. It is only the formulation of a program for sound fiscal management which will lead to those objectives in the end. It is our aim, of course, to see that the budget is balanced and to do this by reduction of expenditures to the extent necessary to bring those expenditures within our income. When that balance is achieved, further reduction of non-essential spending will in turn reduce our requirements. This, and only this, will assure us of any lessening of our tax burden.

Why cannot this be done overnight? That is, why should the budget not be balanced immediately and why should we not have tax relief within the next few months? The answer lies in the fact that expenditures depend not only on present appropriations, but also upon unexpended balances of appropriations from previous years. Unexpended balances as of last July 1—the beginning of this Administration's first fiscal year—amounted to $81 billion. This unexpended balance is earmarked largely for long lead-time items, such as aircraft, tanks, ships, and atomic productions which take from one to three years to manufacture. The funds must be provided in advance in order that the departments may enter into the necessary contracts. No actual money lies idle, but the appropriation remains until the contracts are fulfilled and the products have been paid for. Thus, and this is the point I would like to stress, while Congress may drastically reduce appropriations this year, still, expenditures, because of previously committed balances, will not change substantially from those of last year. The cheerful note in all of this is that in fiscal 1955 and fiscal 1956 these unexpended balances will have subsided, the current reduction in appropriations will have taken effect, expenditures will have been brought under control, and a balanced budget—barring national crisis—will be a distinct probability. Therefore, as we put our fiscal house in order, we can justify individual tax relief. Long before this, however, and I think it has commenced already, a public confidence in our government's fiscal policy will have been created. In my judgment, this is the most significant point of all—that we invite and retain public confidence in our financial stability and in the wisdom of our government.

**"The Dollar Is Getting More Respectable"**

The "Wall Street Journal" stated not long ago, and I quote: "The dollar is getting more respectable." The "Journal's reporters compared the purchase price of all articles, from steaks to used cars, and from real estate to appliances. They found that the dollar was worth more in the month of July of this year than at the same period a year ago. Consider this if you will in the light of statistics as to employment in the United States for the same month of July — as recently released by the Department of Commerce. The July total of over sixty-three million gainfully employed exceeded by more than a million the figure of July of 1952. In the same breath, unemployment in the nation reached a low of a million and one-half—or only 2.4% of the working population.

As we examine this further, we find that the nation set three new records for the April-May-June quarter of 1953. These records were established in production, consumption and investment. This optimistic outlook was sustained by wage and salary incomes running about $15 billion a year more during this quarter than for the same quarter a year ago. The wages and salaries show an increase of about 8% and amounted to a real increase in spending power. This increase in purchasing power, which necessarily is translated into greater consumption, has resulted from the fact that prices and taxes have remained the same, although in some cases, prices are much more stabilized than a year ago. The Commerce Department concluded its report by observing that consumption so far in 1953 is running 6% or 7% higher than in the first half of 1952. The observation is unescapable that consumers are putting most of their increased income into purchases.

I do not profess to be an oracle of things to come, and least of all in the field of economics. There are too many variable factors involved for me to make more than an educated guess as to what the picture will be two or three years from now. However, it seems to me, that the program of the present Administration is beginning to reap its reward and that the "honest dollar" has come into its own. The unsound money policy of the New Deal Administration brought hardship and suffering through inflation to millions of Americans. Inflation — the need for more money to buy the same amount of goods—is just another way of saying that we do not have honest money. It means that you need more money to buy a meal, a shirt or an automobile. It means that people who saved their money —either in deposits or by putting money into pension funds or insurance — have been robbed of about half of what they saved, or thought they had saved. It means that the earnings of the fixed income employee lags behind and often never catches up with the so-called cost-of-living index. All of this is true because the dollar is worth approximately half of what it was worth 15 years ago. This loss in earnings and savings has been caused by the absence of the honest dollar or, if you prefer, by inflation—which is just as real a thief to millions of Americans who work and save as the armed gunman who enters a house in the stealth of night.

The right to work productively —to earn—to save—and to enjoy the benefits of our labors is a valuable heritage of all Americans. It properly is numbered among the freedoms for which our ancestors fought and which we must now preserve. The return to the honest dollar can only result in additional consumption, investment and savings. It seems to me that we have commenced that return and that the effects will be reflected in a stimulation of all our basic consumer services. We must expect, and are now undergoing, a period of readjustment. However, time will prove that the policies of this Adminstration lead to a more stable and, therefore, more lasting prosperity. A prosperity based upon a sound fiscal program, whether it be in government or in our personal finances, is the type of prosperity which will long endure.

**Wants Gold Standard Restored**

In support of my convictions on the necessity for a return to national solvency, I have introduced a bill in the Congress which will restore this country to the gold standard. "The Gold Redemption Act of 1954" will have the effect of curbing inflation and restoring sound money, as pledged by the Republican Platform of 1952. It is essential, in my judgment, that a public confidence in the currency of this nation be encouraged if we are to realize our full economic strength. Such confidence can be had, if we fulfill our obligation to American citizens to prevent further depreciation of the purchase value of their money. We can meet this obligation by restoring a currency that is convertible into gold coin on demand, and thereby return a freedom enjoyed historically in this country until 1933. It is asinine that foreign interests should have the right to convert their dollars into gold freely, while American citizens are denied the same opportunity. I anticipate that hearings on this bill will commence late this year or in January of 1954. These hearings will provide the opportunity to reexamine publicly the deleterious effects of continuous deficit spending and in due course to chart a fiscal course to which we can adhere with safety and morality.

**"We Have Made a Good Start"**

I have no illusions about the problem that lies ahead. As I have mentioned previously, we have made no more than a start, but I think it is a good one. I ask you to remember that there has been a Republican Administration and a Republican Congress in office for little more than six months. Six months is a short time indeed to undo the tragic mismanagement of 20 years. We are faced with an accumulation of unwise policies, excessive taxes, wasteful spending, a huge national debt, subversives in government, influence peddling, secrecy and deception, scandals and all the other debris of bad management. A new Administration needs time to clean up these conditions and a new Congress needs time to do its part effectively. In my considered judgment, President Eisenhower has made remarkable progress toward better government. The first session of the 83rd Congress has laid the foundation and is doing the spade work required for good legislation. The work of the first session will bear fruit in the second session which begins in January of 1954. A final appraisal cannot be made until the work of both sessions has been completed. I have every confidence that the record will be a good one to look upon.

## Three With Hooker Fay

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Cal. — Italo Dell'Orfanello, W. Dee Scherman and Milton E. Taylor have become associated with Hooker & Fay, 340 Pine Street, members of the New York and San Francisco Stock Exchanges. Mr. Dell'Orfanello and Mr. Taylor were formerly with Walston & Co. Mr. Scherman was with Davies & Co.

## Shuman, Agnew Adds

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—William H. Agnew, Jr., has become affiliated with Shuman, Agnew & Co., 155 Sansome Street, members of the New York and San Francisco Stock Exchanges.

## Joins Eisele, King

(Special to THE FINANCIAL CHRONICLE)

ST. PETERSBURG, Fla.—Richard S. Wessler has become associated with Eisele & King, Libaire, Stout & Co. Mr. Wessler was formerly with Barrios Investments and A. M. Kidder & Co. In the past he was with Geo. Eustis & Co.

## With Eldredge, Tallman

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Arthur C. Langry has become associated with Eldredge, Tallman & Co., 231 South La Salle Street. Mr. Langry was formerly with Harris, Upham & Co.

# *Public Utility Securities*

By OWEN ELY

## Utility Stocks Make Improved Showing

During the spring decline in the stock market the utility stocks made a mediocre showing, declining almost as much as industrials; but in the recent decline (which started Aug. 14 in the Dow Jones industrial average) they made a much better showing. The Dow Jones industrial average during Aug. 13-Sept. 14 dropped about 8% and the rail average decline approximated 15%, while the utility average declined only 5%. Based on the prices of Sept. 24 after the partial recovery in stock prices, the industrial average was still more than 5% below the August high and the rail 12%, while the utilities showed a net decline of only about 3%.

The spring decline in utility stocks appeared due to three major factors: (1) unusually heavy offerings of new utility stocks, either by direct sale or subscription rights, which had been scheduled for some time and could not easily be deferred; (2) the sharp decline in the bond and preferred stock markets due to Washington's decision to end the period of abnormally low interest rates, and reports that holders of utility equities were switching into municipal bonds and other senior securities—which reports were probably exaggerated; and (3) some bearish forecasts by a prominent utility analyst regarding the potential disastrous effects which a severe depression might have on utility earnings.

The output of electricity and the earnings of the electric utilities have made an excellent showing this year. New high records for electric output were established in the summer, presumably due to the heavy demand for air-conditioning, TV, etc. Following is the record of increases over last year, for all the large utilities.

| | No. of Customers | KWH Sales | Electric Revenues | Net Income |
|---|---|---|---|---|
| January | 3.4% | 7.1% | 9.0% | 13.2% |
| February | 3.5 | 6.6 | 8.1 | 11.3 |
| March | 3.4 | 8.8 | 9.1 | 7.5 |
| April | 3.4 | 11.3 | 10.8 | 13.3 |
| May | 3.3 | 11.1 | 11.4 | 20.0 |
| June | 3.3 | 14.9 | 12.2 | 9.6 |
| July | * | 16.7 | 12.1 | 16.8 |

*Not available.

Some of this remarkable showing is explained by the effects of the steel strike in the summer of 1952, but nevertheless it should be quite encouraging for holders of electric utility stocks.

Moreover, the electric utilities have continued to announce frequent dividend increases. Consolidated Edison increased its quarterly dividend rate twice this year, and is now paying one-fifth more than it did last year. Other electric utilities which have increased their quarterly rates include Pacific Gas & Electric, Detroit Edison, Pennsylvania Power & Light, Florida Power Corp., and a number of others. The electric utility stocks as of Aug. 31 showed an average yield of 5.8%, an average price-earnings ratio of 12.7, and an average pay-out of 73%.

The gas utilities have also made a strong showing with respect to growth, but earnings of some individual companies reflect difficulties with higher gas costs and delays in obtaining corresponding rate increases. In addition, the industry suffered from another warm winter which greatly curtailed the house-heating load. Following are the percentage gains over 1952:

| | No. of Customers | M.C.F. Sales | Gas Revenues | Net Income |
|---|---|---|---|---|
| January | 5.1% | 13.1% | 19.2% | 10.0% |
| February | 4.9 | 10.6 | 18.7 | 9.8 |
| March | 4.9 | 8.5 | 16.4 | —2.0 |
| April | 4.7 | 13.8 | 22.5 | 3.2 |
| May | 4.5 | 17.6 | 28.7 | 37.9 |
| June | 4.4 | 15.8 | 26.9 | 18.3 |

For the 12 months ended June 30, revenues gained 26.9% and net income 18.3%. This showing was realized despite an increase of 37.7% in the cost of purchased gas due to higher field prices. The gas figures are difficult to interpret, because they include wholesale as well as retail business. However, the results indicate that the industry as a whole is still growing very rapidly, and if it had received a fair break on weather and rates, share earnings would make an excellent showing.

There are a number of complications and cross-currents, so that it is necessary to study each company individually in order to analyze current and potential share earnings. Thus for the 12 months ended June 30 American Natural Gas share earnings gained 33%, while those of Columbia Gas dropped 9% and Consolidated Natural Gas declined 21%. Among the retail distributors Brooklyn Union Gas share earnings dropped 41% (not quite covering dividends), due to temporarily unfavorable factors, while Pacific Lighting earnings gained 29%. Thus, it is hard to generalize about the gas utilities but there are probably a number of bargains in the list where earnings are temporarily depressed. Yields average about 6.3% for pipe-lines, 5.4% for the integrated companies, and 5.5% for retail distributors. The average PE ratio is about 12.7%.

## Lamson Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — William J. Lehmann has been added to the staff of Lamson Bros. & Co., 141 West Jackson Boulevard, members of the New York and Midwest Stock Exchanges.

## With Coburn, Middlebrook

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, Maine — Derrill deS. Trenholm has become associated with Coburn & Middlebrook, Incorporated, 465 Congress Street.

## Harris With Cruttenden

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo. — George R. Harris has become associated with Cruttenden & Co., First National Bank Building, as manager of the corporate department. Mr. Harris was formerly a partner in Gray B. Gray & Co.

## Joins H. L. Robbins

(Special to THE FINANCIAL CHRONICLE)

WORCESTER, Mass. — Harvey M. Grant has been added to the staff of H. L. Robbins & Co., Inc., 40 Pearl Street.

Continued from page 11

# Federal Budget and Corporate Profits in a Business Decline

international situation would thus apparently justify further economies in these major items, which represent over two-thirds of the budget.

(b) It would seem illogical for the Administration to cut defense expenses in the face of a decline in business without also making further offsetting tax reductions.

(c) Lower operating costs brought about by the lower price level, which would accompany a decline in business, could hardly be reflected in an important way in the June 30, 1954 budget, since many items are ordered on long-term contracts, and adjustments in government costs are usually slow. In the budget for the following year there would certainly be some economies, but we are assuming that there would be offsets to such expenditure reductions in larger costs for farm product price stabilization programs, higher interest charges, and probably new public works programs or special aid to the states for such purposes.

It will be noted that in the fiscal years 1953 and 1954 there is a considerable difference between the budget deficit and cash deficit. This difference tends to narrow and then disappear under our assumed declines, since revenues from Federal payroll taxes will decrease and unemployment compensation payments increase with unemployment. We estimate 5 million unemployed in a 1949-type decline and 8.5 million in the 1938-type decline, compared with a nominal 1.5 million at the present time.

Thus fluctuations in the cash deficit are much more extreme than in the budget deficit. The cash deficit is, in reality, more significant than the budget deficit, since this represents the amount which must be financed. As shown in Table IV, the increase from about $3 billion for the 1954 fiscal year to $16 billion, and then to nearly $30 billion, is certainly startling.

### Conclusions

Two especially interesting conclusions can be drawn from this analysis. The first is that the decline in corporate profits will be very much cushioned by the elimination of the Excess Profits Tax and by loss carry-backs. Incidentally, it is obvious that should the Excess Profits Tax not be ended on December 31, the decline in pre-tax earnings in the event of either type decline would eliminate most of the receipts, so that the effect would be the same. In other words, it probably will be the decline in pre-tax earnings which, in any event, will reduce receipts. Whereas, in 1949 profits after taxes declined more than those before taxes, in our 1949-type projection the same pre-tax decline results in a considerably smaller decrease in earnings, after taxes, than in the comparable earlier period. This also is, to a lesser extent, the case in the 1938-type decline of corporate profits. Here a 47% pre-tax percentage decline in pre-tax profits results in a decline, after taxes, of only 42% in our estimate, as against 51% decline in the 1938 period.

Good reasons can be given for expecting the decline in corporate profits before taxes to be either greater or less than the decreases in 1949 and 1938. Suffice it to say that for want of a better guidepost we have assumed declines identical to those of the earlier periods. It is appropriate to note, however, that the 1938 decline in business and profits was one of the severest year-to-year declines in our economic history. The decline in production from the high to the low was about 33⅓% and took place in just about twelve months.

The second and most outstanding conclusion to be drawn from this study is the vulnerability of the receipts side of the Federal budget to a business decline. In the last twelve years the United States has built up a revenue system which depends to the extent of nearly 80% of total receipts on corporate and individual income taxes. No government in the world, to our knowledge, raises such a large proportion of its budget from income taxes (personal and corporate) as the United States. In most countries, including members of the British Commonwealth, the percentage of the budget raised from income taxes (personal and corporate) is nearer 50% than the 80% in the United States. Because of this dependence on income taxes, revenues are especially difficult to predict. This is illustrated by the fact that the Truman Administration in January greatly overestimated receipts for the year ended June 30, 1953, and the Eisenhower Administration, two or three months later, again was too optimistic about them.

A decline in business and in profits finds the government a deeply involved partner, so that its tax receipts fade very rapidly. Thus it is that a relatively small decline in business of the 1949-type, results in an estimated budget deficit of nearly $18 billion, while the 1938-type decline results in such a large shrinkage in revenues that the estimated deficit becomes nearly $30 billion.

These estimated budget deficits are disturbing as an indication of what may be in store for the United States economy in the event of a decline in business. One wonders what the attitude of the public will be when it finds that the United States Government incurs a budget deficit of $9.5 billion under super-boom conditions, one nearly twice that amount in the event of a 1949-type decline, and one over three times that amount when a 1938-type recession occurs. When and if this happens, what will be the effect on the public's buying habits and on its attitude toward savings, past, present, or future?

The question also arises whether deficits of the amounts mentioned will not, in themselves, act as brakes on any decline in business. With such deficits to be financed, the monetary authorities will have little choice but to maintain a relatively easy money policy and to inflate bank deposits. In any event, it would seem that they would be likely to inaugurate an easy money policy when and if definite evidences of a recession begin to appear.

It seems likely that in the early stages of a decline the government's efforts to reverse the trend may perhaps be limited to monetary policy. But when there are evidences that the decline is acquiring the symptoms of a 1938 affair the government is likely to take other steps to halt the decline. For instance, if it should take the economy two years to reach a 1938 stage, one might assume that the expenditures in the budget in the year ended June 30, 1956, would be increased by public works expenditures. If a peace in Korea should be followed up by a consistent Russian policy aimed to relieve world tensions, a real change in the international climate might occur in the next year. Under these conditions a decline in armament and foreign aid expenditures could be expected in the year ended June 30, 1955. If a decline with unemployment of eight million or more were developing, it seems logical to expect that any cut in defense and foreign aid would be replaced by a large public works program, so that the net expenditure decline would be small.

In the event of budget deficits of the magnitude estimated, it is difficult indeed to guess what will be the attitude toward tax reductions of a Republican Congress, elected on a "balance the budget" platform. It will take a great deal of insight and courage on the part of Congress to reduce tax rates in the face of such deficits. However, tax reduction would be the quickest and most effective way to fight such a decline.

Certainly one can conclude that the size of possible budget and cash deficits in the event of assumed declines in business is a matter of most serious concern to the United States economy. If the long-term integrity of the dollar is to be maintained, the present top-heavy dependence for revenue on income taxes must be adjusted. Reform of the revenue system will not be easy, politically, since it will involve finding new sources of income such as a national sales tax of some kind. To put revenues into gear with expenditures so that we have surpluses in booms and deficits in depressions (instead of big deficits in booms and bigger ones in depressions) may eventually require both higher taxes and lower expenditures. It will be especially difficult to make such changes during a decline in business, since they might tend to prolong and intensify any such decline, and such action might be suicide for the party in power.

The new Administration is indeed confronted with a terrible dilemma, and one, clearly, not of its own making. It has inherited a tax system peculiarly sensitive to declines in business activity, with the revenues from that system quite inadequate in the midst of a great boom to meet the current inherited level of expenditures. There has been much discussion about "the bubble on the boom" and about removing the bubble. A hard money policy may stop or slow down the $30 billion to $40 billion annual increase in private debt merely to replace it with a similar increase in public debt. If, perchance, the boom as well as the bubble should be pricked, the effect on the budget would be devastating.

Thus are we reaping the harvest of many years of escapism and extravagance in budget matters. It is hard indeed to forecast the final outcome.

**TABLE IV**

**Summary of Adjustments to Budget**

(In billions)

| Fiscal Years — June 30 | Actual 1953 | Official Estim. 1954 | 1949-Type | 1938-Type |
|---|---|---|---|---|
| Government Receipts | $65.2 | *$68.5 | *$68.5 | *$68.5 |
| †Deduct Declines in Revenues | --- | --- | 14.0 | 26.3 |
| Revised Receipts | $65.2 | $68.5 | $54.5 | $42.2 |
| Government Expenditures | 74.6 | ‡74.1 | 74.1 | 74.1 |
| Estimated Economies | --- | --- | 2.1 | 2.1 |
| Revised Expenditures | $74.6 | $74.1 | $72.0 | $72.0 |
| Budget Deficit | 9.4 | 5.6 | 17.5 | 29.8 |
| Cash Deficit | 5.3 | 2.8 | 16.0 | 29.8 |
| Loss of Mills Plan Windfall fiscal years after 6-30-55 | --- | --- | 1.7 | 1.1 |

*Assumes end of Excess Profits Tax on Dec. 31, 1953 and 10% reduction in Personal Income Tax on Jan. 1, 1954. †From Table III. ‡Treasury Secretary Humphrey recently estimated 1954 budget year expenditures at $72.1 billion instead of $74.1 billion.

**SUMMARY TABLE**

**Effects of a 1949-Type or a 1938-Type Decline on Corporate Profits and the Federal Budget**

(Dollar figures in billions)

| | 1952 | Estim. 1953 | Estim. 1949-Type Decline | Estim. 1949-Type Decline from 1953 | Actual Decline in 1949 from 1948 | Estim. 1938-Type Decline | Estim. 1938-Type Decline from 1953 | Decline in 1938 from 1937 |
|---|---|---|---|---|---|---|---|---|
| Industrial Production Index (1935-39 = 100) | 219 | 235 | 215 | 8.5% | 8.5% | 185 | 21.0% | 21.0% |
| Wholesale Commodity Price Index (1947-49 = 100) | 111.6 | 109 | 103–104 | 5.0 | 5.0 | 99.0 | 9.0 | 9.0 |
| Personal Income (Before Personal Income Tax) | $269.7 | $285.0 | $280.0 | 1.7 | 1.7 | $263.0 | 7.7 | 7.7 |
| Personal Income Tax (Federal) | 31.1 | 33.0 | 28.0 | 15.0 | 15.0 | 22.0 | 33.0 | 33.0 |
| Corporate Profits (Before Taxes) | 39.2 | 42.5 | 34.0 | 20.0 | 20.0 | 22.5 | 47.0 | 47.0 |
| Corporate Profits Taxes (Federal) | 19.8 | 23.0 | 17.0 | --- | --- | 11.2 | --- | --- |
| Corporate Profits (After Federal Profits Taxes) | 19.4 | 19.5 | 17.0 | 13.0 | 21.0 | 11.3 | 42.0 | 51.0 |
| Government Receipts (For fiscal year following) | 65.2 | *68.5 | †54.5 | --- | --- | †42.2 | --- | --- |
| Govt. Expenditures (For fiscal year following) | 74.6 | *74.1 | ‡72.0 | --- | --- | ‡72.0 | --- | --- |
| Estim. Deficit (Budget) (For fiscal year following) | 9.4 | 5.6 | §17.5 | --- | --- | 29.8 | --- | --- |
| Estim. deficit (Cash) (For fiscal year following) | 5.3 | 2.8 | §16.0 | --- | --- | 29.8 | --- | --- |

*Official estimate for fiscal year June 30, 1954. Assumes continuation of Excess Profits Tax to Dec. 31, 1953, and 10% reduction in personal income tax as of Jan. 1, 1954.

†Official estimate of June 30, 1954 receipts adjusted as follows:

| (Assumes end of Excess Profits Tax 12-31-53) | | 1949-Type (in billions) | 1938-Type (in billions) |
|---|---|---|---|
| Decline in Corporate Tax Receipts | on basis of present rates | $6.0 | $11.8 |
| Decline in Individual Income Tax Receipts | on basis of present rates | 5.0 | 11.0 |
| Decline in Other Receipts | on basis of present rates | 1.0 | 2.0 |
| To adjust for full fiscal year 10% reduction in Individual Income Tax and Miscellaneous | | 2.0 | 1.5 |
| Estimated decline in revenues | | $14.0 | $26.3 |

‡Official Estimate of 6-30-54 adjusted as follows: Reduced $2.1 billion to assume end of Korean War.

§In fiscal years after June 30, 1955, loss of Mills Plan windfall will increase deficit by over $2 billion at current levels of corporate earnings, by about $1.7 billion in a 1949-Type Decline and $1.1 billion in a 1938-Type Decline.

# $75,000,000 World Bank Bonds Marketed

**Three-Year 3% bonds are priced at 99⅝%, yielding about 3.13%. Morgan Stanley & Co. and The First Boston Corporation head underwriting group of investment firms and banks.**

A new issue of $75,000,000 three-year 3% dollar bonds of the International Bank for Reconstruction and Development, generally better known as the World Bank, was marketed on Sept. 29 by a nationwide underwriting group of 147 investment firms and banks, jointly headed by Morgan Stanley & Co. and The First Boston Corporation. The bonds are being offered in the U. S. at a price of 99⅝% and accrued interest to yield approximately 3.13% to the maturity date of Oct. 1, 1956. Five million dollars of the bonds are being taken by a syndicate of financial institutions in Holland. Proceeds of the financing will be used in the general operations of the Bank.

The bonds have the shortest maturity of any of the seven issues previously marketed in this country by the Bank since the initial offering in 1947. The present 3% bonds are non-callable prior to April 1, 1956, are callable on and after that date, at par and accrued interest and will not be subject to a sinking fund.

### Big Interest Abroad

Foreign participation will be substantial.

Requests have been received, originating in 12 foreign countries whose governments are members of the Bank, to purchase an aggregate of approximately $21,000,000 of bonds for special funds. An additional $20,000,000 bonds will be distributed publicly or privately in four other European countries, as follows: In Switzerland, the Swiss Bank Corporation, Basle, and the Credit Suisse, Zurich, are taking just under $10,000,000 for that market. In Holland, the Nederlandsche Handel-Maatschappij, N. V. (Netherlands Trading Society) Amsterdam, is heading a syndicate of other banks and financial institutions which is underwriting $5,000,000 principal amount of the issue. In London, Morgan Grenfell & Co. Limited is acting on behalf of five banking houses in London who are taking $3,500,000 principal amount for placement with purchasers who are eligible to buy them with dollar funds. In addition, Sweden and Belgium will each take $1,000,000.

The extent of the foreign participation in the loan is of interest, not only because of its size, but because of its significance in relation to the increasingly international character of the market for dollar securities of the World Bank.

The current offering is the third issue of World Bank bonds to be brought out in the United States on a negotiated underwriting basis. Previous financing under such arrangements consisted of $50,000,000 in 23-year 3⅜% bonds in May of 1952, and $60,000,000 in 19-year 3½% bonds in October of the same year, both issues having been successfully sold through underwriting groups headed by the same firms managing the current offering. Total funded debt of the Bank, giving effect to issuance of the new bonds, will consist of $643,008,673 expressed in U. S. currency.

### Institutional Demand

At a press conference held in the offices of Morgan Stanley & Co. in New York City on Sept. 28, Perry Hall of that firm stated that in addition to the demand from abroad, extensive absorption of the issue by savings banks, pension and trust funds, is indicated here.

Commenting on subsequent issues, Eugene Black, President of the Bank, said: "We won't need more money for some months, but extraordinary strength in the market might elicit acceleration of our taking care of our future needs."

The United States underwriting group includes, among others:

Bank of America National Trust & Savings Association.
Bankers Trust Company.
Blyth & Co., Inc.
The Chase National Bank of City of New York.
Chemical Bank & Trust Company.
Dillon, Read & Co. Inc.
Drexel & Co.
The First National Bank of Chicago.
The First National Bank of the City of New York.
Glore, Forgan & Co.
Goldman, Sachs & Co.
Guaranty Trust Company of New York.
Harriman Ripley & Co., Incorporated.
Kidder, Peabody & Co.
Lazard Freres & Co.
Lehman Brothers.
Manufacturers Trust Company.
Merrill Lynch, Pierce, Fenner & Beane.
J. P. Morgan & Co. Incorporated.
The National City Bank of New York.
Salomon Bros. & Hutzler.
Shields & Company.
Smith, Barney & Co.
Stone & Webster Securities Corporation.
Union Securities Corporation.
White, Weld & Co.
American Trust Company.
Harris Trust and Savings Bank.
Ladenburg, Thalmann & Co.
The Northern Trust Company.
The Philadelphia National Bank.
A. C. Allyn and Company Incorporated.
Bear, Stearns & Co.
A. G. Becker & Co. Incorporated.
Alex. Brown & Sons.
Central Republic Company (Incorporated).
C. F. Childs and Co., Incorporated.
Clark, Dodge & Co.
Dick & Merle-Smith.
Dominick & Dominick.
Equitable Securities Corporation.
Estabrook & Co.
Hallgarten & Co.
Hemphill, Noyes & Co.
Hornblower & Weeks.
W. E. Hutton & Co.
W. C. Langley & Co.
Aubrey G. Lanston & Co., Inc.
Lee Higginson Corporation.
Mercantile Trust Company.
F. S. Moseley & Co.
R. H. Moulton & Company.
Paine, Webber, Jackson & Curtis.
Phelps, Fenn & Co.
Wm. E. Pollock & Co., Inc.
R. W. Pressprich & Co.
L. F. Rothschild & Co.
Dean Witter & Co.
Wood, Struthers & Co.

*Continued from page 12*

# The Boom Flattening Out

confuse us or to grope around in the relative darkness that prevailed in 1920.

Without referring to business forecasting services, I think an advertising man would understand what I mean if I suggest that many firms might be just as effective and much more happy if they didn't have to look at what Hooper and Nielsen would show them about themselves.

### Period of Unprecedented Boom

The newness of the phenomenon of business cycles is worth emphasizing because it enables us to back away and take another look at our present economic world without being handcuffed to a set pattern which we might be too ready to assume will follow a prescribed groove. Let's shed the idea that the ups and downs of business are merely an automatic sequence and try to examine where we are today and what the implications of our present position may be for the future.

(1) We have gone through an unprecedented period of boom in the past 12 years. The great initiating force was, of course, the mobilization for World War II, and again the remobilization after mid-1950. In fact, we have been engaged in the greatest armaments race in the world's history.

(2) The second force which has stimulated the present boom was the tremendous advance in technology in various fields. A very large portion of our productive equipment is new since 1940. We have had tremendous developments in fields of synthetics, of communication, of marketing, and of many other aspects of our economic activity. All of this meant very large capital investment.

(3) A third factor behind the investment surge was the accumulation of deficiencies which held over from the 1930s. These shortages, both in producer and consumer goods, were made more acute by the enforced deferment of buying during the war period.

(4) A fourth factor has been the upsurge of population. Beginning at 2½ million births in 1940, the birth rate reached an extremely high level of 3.8 million in 1947 with the demobilization of the armed forces. To be sure, the birth rate reflected, in part, the coming of age of the generation born during the prosperous 1920s. But surprisingly enough, the birth rate has held at near-record levels since 1947. In fact, the number of births recorded last year exceeded all previous records, approaching 3,900,000, and only the accumulation of new babies over the preceding 10 years made the base so high that the ratio of births to population did not reach a new peak. We can follow this wave of more births, more diapers, more bicycles, more schools, more need for larger homes, and pretty soon more wedding rings, autos and more little homes again. The birth rate is at least a first cousin of the investment rate.

(5) A fifth factor in the boom has been the extremely liberal foreign aid programs of our government. Perhaps this does not fall under the heading of investment but it does represent, like other investment outlays, a diversion of our present production into channels which do not result in the immediate outflow of goods available for current sale to domestic consumers.

These major elements which have generated our unprecedented boom all add up to a tremendous force which kept the demand for goods ahead of our capacity to supply.

### Adjustments Ahead

Some of the factors that gave us our boom over the past dozen years are no longer present. With respect to other factors, I am sure none of us wants to rely in the future upon armament races and foreign give-away programs. Therefore, we are faced with the question of what new kinds of adjustment or maladjustment lie ahead.

The problem for the future is going to be to find ways in which we can bring the great economic machine into reasonable balance when some of the factors I have just mentioned recede in importance.

Having stated what I believe to be our biggest problem, it should be possible for us to dispose of the question of the immediate business outlook in a few words, and then get back to the main ring of the circus.

We are unquestionably in the "flattening-out" area at the top of a boom. Assuming no great new war or other unforeseen cataclysm, it seems clear that we are catching up with our past shortages and a substantial part of our abnormal defense needs.

What happens from here on? In the short run, I feel confident we will have to pay more attention to our own company's business, and our own industry problems than to a great swing in general business conditions. In the overall summary, 1953 will be a good year, and at least the early part of 1954 won't see a widespread collapse of employment and demand.

There will undoubtedly be an intensification of competition. You'll have to put advertising across on a basis of the sales it will produce, rather than on the basis of how little it will cost after taxes. Many of the enviable windfall situations of the past several years may be replaced by rude awakening and hard grubbing for business.

But at the same time others will fare very well. The latest figures show unemployment at a peacetime low, and consumer buying power at a record high. If you have something to sell and can make people want it, they can pay for it.

I don't think we need a recitation of all the monthly indexes published in the Survey of Current Business. They look good on the whole and the authorities I try to keep in touch with would probably sum it up this way: Business today is excellent. The next six to 12 months are likely to be about level or moderately downward for the major indexes.

Let's let it go at that, and take a look at the longer future. This is where all of us get into the "guessing" area.

### The Longer Outlook

Looking ahead, we see elements of both strength and weakness. Here are some of the favorite sources of worry:

(1) Reduction of defense expenditures.

(2) Falling off of foreign assistance programs.

(3) Catching up on plant expansion programs.

(4) Reappearance of surpluses of various raw materials.

(5) Credit restraints, either by lenders or by the government.

There are, of course, many more items that could be included in the list, but perhaps the only other one to which your attention should be called for our present purpose is the fear that a psychology of retrenchment will replace the psychology of boom that has characterized the past decade.

Before drawing conclusions from the specific sources of concern that I have mentioned, it seems well to present similar high spots on the constructive side. These fall into two categories, one of which includes the affirmative reasons for optimism that offset the negative considerations I have mentioned; the other relates, not to reasons for expecting an increase in anything, but rather to the cushions that we hope will prevent us from having severe declines.

The first category, therefore, includes such factors as these:

(1) The continuing effects of the birth rate increase with all of the implied consequences. A record generation of youth requires a tremendous investment outlay as it sweeps through the stages of growth and education.

(2) Continued huge demands for investment comprising both deferred needs, such as highways, public works, urban decentralization, schools, public utilities, etc., and new demand to keep pace with technology already known but not yet applied.

(3) Fiscal and monetary policies which the government has committed itself to employ, in order to maintain reasonable availability of purchasing power to support a prosperous nation.

This makes three major items, and I would like to add a fourth. I suppose many of you will say it is intangible, but I am sure you will agree that it is just as significant as the others. This item is the force of **competition** which is going to lead every one of us to try to inaugurate improvements, to find better ways of satisfying needs, to locate new markets; in a word, to **grow**. This has been one of our great national assets. I'm sure it will continue to be.

The more defensive list of items is one from which we should draw a good deal of comfort. It includes many things which we can feel very sure will temper the changes that lie ahead, and includes many items that were either unavailable or insignificant in 1929, when we entered our last severe depression. Here are some of them:

(1) Insured bank deposits.

(2) Insured mortgages.

(3) Amortized credits both on real estate and personal loans.

(4) Unemployment insurance.

(5) Benefits to the aged and surviving dependents, both Federal and private plans.

(6) Veterans' assistance programs.

(7) Credit availability through government agencies to meet emergency conditions.

(8) The very size of the government budget as a factor in the economy which is probably more stable than private expenditures.

(9) Price supports for farm products.

(10) Legal minimum wages, and labor contracts that will resist sharp declines.

These are some of the things that should cause us to recognize that we are dealing with a different phenomenon than the kind of cyclical contraction which produced 1921 and 1932. The last two items may backfire in the longer run but they do produce stickiness or resistance to short-term decline and the list, as a whole, is quite impressive.

Even if the expansive forces should be weaker than those which push us toward readjustment, the consequence would not carry our economy through a process of acute liquidation. At the minimum, this should be a source of great comfort, but I am sure that to an audience whose very life is devoted to doing better this year than last, and still better next year, it provides a runway and a takeoff point rather than an innerspring mattress on which to ease a fall.

I have spoken a good deal about the importance of demand in our economic structure. Advertising is an important tool in demand creation. Some people think it is the whole thing. But I'm satisfied that I would get hungry around noontime and that you would want a padded seat in the chair you were sitting on whether there were any advertising or not. Demand creation, however, is one of the major elements in the American economy which differentiates it from many foreign ways of life. It can create markets and I am confident that it will continue to do its job in this field.

I think I see a growing confidence among students of business conditions that we can maintain a continuing increase in our standard of living. Certain kinds of readjustment are not escapable if we are to remain sound and healthy but we ought to be wise enough to accomplish them without plunging ourselves into major and widespread liquidation. During the past year or two one of our solid accomplishments has been an end of dependence upon continually rising prices for the stimulus to our well-being. Wages have gone up somewhere nearly commensurate with increased productivity, while prices have been about unchanged across the board. This means a substantial increase in real income, in the standard of living and in the market for the goods we can produce. It's our job to capture that potential and I am satisfied that we have the equipment to do it.

*Continued from page 5*

# *Observations . . .*

of mass production's goods has been assumed as a matter of course, and a more dangerous assumption cannot be conceived. No other assumption has made us so unwary of economic pitfalls and so blind to the sociological imperatives of the American mass production system."—along with the key *leitmotiv* "[We] have paid too little attention to the fact that the productivity of the great machine is not automatic but is dependent upon the purchase of its product."

### What to Do?

Mr. Mazur makes a few specific suggestions toward the activation of spending to keep purchases up to the level of purchasing power, and reach his all-important goal of "realizing the conversion of purchasing power into purchases at a rate equivalent to production."

He cites the importance of the stimuli of advertising, far beyond its present 2% of the national income, and of installment selling to stimulate the public's desire for ever-higher standards of living, and to make that desire effective he suggests an overall index of **consumption** like the Federal Reserve Board's series on **production**. He wants to enlarge the Council of Economic Advisers to devote its efforts to analysis of consumption. He wants all businessmen to have easy access to statistical facilities supplying full current information covering the status of production, consumption and inventories.

Above all — whereas Keynes advocated that the government take up the investment slack, Mr. Mazur would rely on *intelligence* to take up the consumption slack.

But recourse to information and intelligence seems to be irrelevant to the individual's fixing of policies pursuant to his incentives. Furthermore reliance on the forecasting of consumers' behavior is contradicted by psychological elements. As the author himself points out in another connection, price cutting may lead *either* to buying curtailment or to stimulation; and conversely, rising prices are as likely to stimulate (scare) buying as to discourage it.

### Avoidance of the Dirty Word

Mr. Mazur seems to be leading us toward Keyserling-ish *anti-stagnation expansion* (in lieu of that dirty word *inflation*), and to an enlargement of governmental controls, if not management. Moreover, he may be advocating over-obsolescence along with inflation; even as he may be over-emphasizing the power of independent decision by the individual in his venture spending.

However, in this, his latest book, he is rendering a useful service in succinctly making an important addition to our contemporay discussion agenda.

### Joins C. J. Devine

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Cal.—Theodore R. Bullock is now with C. J. Devine & Co., Russ Building.



# Mutual Funds

By ROBERT R. RICH

An advisory board of eight leading Southwestern businessmen and industrialists has been named by Texas Fund, Inc., mutual investment company with headquarters in Houston, it was announced this week by Morton M. Banks, of Banks & Holcombe, New York wholesale representative for the Fund.

The new board was formed in order to have all areas of the Southwest represented in Texas Fund's management, Dudley C. Sharp, President of the Fund, said.

"Because of the rapid and continued industrial growth of the Southwest, conventional investment research is not sufficient," Mr. Sharp said. "It is the aim of the Fund to maintain direct contact with industries and economic development throughout the Southwest."

Members of the new board are Fisher Ames of Ames, Daugherty, Bynum and Black, Oklahoma City; John M. Bennett, Jr., chairman of the board, National Bank of Commerce, San Antonio; E. DeGolyer of Dallas, internationally known consulting geologist and chairman of the board, DeGolyer and MacNaughton; Roy S. Nelson, President, Gulf States Utilities Company, Beaumont; Herbert L. Nichols, chairman of the board, Southwestern Public Service Company, Dallas; Ray O. Shaffer, President and chairman of the board, Welex Jet Services, Inc., Fort Worth; Frank Strachan, Vice-President, Strachan Shipping Company, New Orleans; Jay Taylor, President, Baker & Taylor Drilling Company, Amarillo.

The group will meet regularly in Houston to advise with the Fund's management in regard to investments in the area's industries.

The area in which Texas Fund invests extends roughly from Arizona to Louisiana, and includes Arkansas and Colorado, as well as Texas, New Mexico and Oklahoma.

The Fund, now in its fifth year of operation, has shown phenomenal growth since its founding. Assets have reached $11,600,000, and there are now around 9,000 shareholders in 40 states and various foreign countries.

Texas Fund is unique among mutual investment companies in that it limits its investments to stocks of companies operating principally in the Southwest, and offers investors everywhere an opportunity to buy into that area's rapidly growing industries.

**UNUSUAL CONCENTRATION** of investments in growth industries is reported in the quarterly message recently mailed to shareholders of Diversified Growth Stock Fund. Approximately two-thirds of the Fund's assets are in the electronic, chemical and drug and oil and gas industries. Equally unusual is the fact that investments include many "unlisted" issues, reflecting management's search for growth situations off the beaten track.

About one-third of assets consist of such securities, including the stocks of General American Oil, Tracerlab, Inc., Polaroid, Durez Plastics, Dewey and Almy Chemical, and Seismograph Service Corp. — one of the world's largest companies engaged in in geophysical exploration for oil and gas. The latter stock was added to holdings during the past quarter.

### PERSONAL PROGRESS

JOHN B. CORNELL, Jr., has joined Distributors Group, Inc., national sponsor of Group Securities, Inc., as wholesale representative for the Southwest with headquarters in Dallas. He formerly covered a similar territory for Television Electronics, Inc., and before that was associated with the Dallas investment firm of Dallas Rupe and Son. Mr. Cornell is a member of the Dallas Chamber of Commerce and the Dallas Bond Club.


John B. Cornell, Jr.

WILLIAM A. PARKER, President and Chief Executive Officer of Incorporated Investors, announced today, after a meeting of the Board of Directors, the following appointments:

JAMES E. GIBBONS, Vice-President, was appointed Exectuive Vice-President in charge of operations.

GEORGE D. ALDRICH, Vice-President, was appointed Chairman of the Administrative Committee which supervises the relationship of the company with the National Association of Investment Companies, The National Association of Securities Dealers, The Securities and Exchange Commision, and other public bodies.

AMORY PARKER, Vice-President, was appointed Chairman of the Finance Committee.

JOHN J. DUNPHY, Vice-President, was appointed Director of Research.

JOSIAH CHILD, formerly with Stone and Webster in New York, has been added to the research staff.

LLOYD S. STOCK, 120 Broadway, New York, has been elected Treasurer of Futures, Inc., the commodity mutual fund. Mr. Stock is also Secretary and Treasurer of the Commercial Investing Corporation. Previously, he was head of the investment department of Lazard Freres and head of the investment advisory department of the National City Company.

## A Guide to Investment Company History

By S. WALDO COLEMAN

President, Commonwealth Investment Company

*Following is part one of a paper which was read before the Society of Mutual Fund Retailers in San Francisco by Mr. Coleman upon the recent occasion of the Society's first mutual fund training course. The second part will be given next week.*

First it is well to realize that the different forms of investment companies, including mutual funds, rest on the foundation of diversification. This principle is not new but has stood the test of time—used for some centuries by insurance companies in their underwriting.

It is generally agreed that the first investment company was formed in Belgium in 1822. Octually, very little is known of the subsequent development of the idea until the latter part of the nineteenth century. By the 1880's, several investment companies had been formed in England and Scotland. They were organized primarily to provide a sound means by which investments could be made in foreign countries. Great Britain was an exporter of capital, and it was faced with the problem of making foreign investments on a sound basis. Through an investment trust, it was possible for a large number of investors to combine their funds and diversify their investments abroad. It was also possible for them as a group to employ professional management for the selection and supervision of the investments that were made with their comingled funds.

**THUS, WE** can see that the investment trusts of Great Britain were developed to satisfy a basic need. Like any new development, this one had its problems, and not all of the British and Scottish investment trusts succeeded. Out of their early experience, however, these trusts developed a basic pattern which, in turn, had a bearing upon the investment trusts which were later formed in the United States.

I might mention parenthetically that I am intentionally referring to these companies as investment *trusts*, not as investment companies or as mutual funds. The reason is that they were known as investment trusts at the time, and they were not themselves mutual funds, although they were the ancestors of the mutual funds we know today.

**THE PATTERN** of the English and Scottish trusts may be described in this way. First of all, the emphasis was primarily on income. Capital gains were not distributed, but were set aside as reserves against future losses which were considered to be inevitable. Sometimes, even a portion of the investment income was set aside for this purpose. Secondly, they followed a policy of very broad diversification. They owned from 500 to 1,000 or 1,500 individual securities—a good deal more than any present-day American company. Thirdly, they had more than one class of security in their capital structure. Usually, they had debentures and preference shares outstanding in addition to their common shares. The investment portfolio, in turn, tended to correspond with the capital structure. In other words, the investment trust would own about the same proportion of bonds or debentures as it had in its capital structure. The same was true with the preference shares and the common shares. Therefore, although the capital structures were of the leverage type, the investment portfolios tended to offset their speculative effect.

Although the restrictions upon foreign exchange during the twentieth century have created problems in making foreign investments, the basic pattern of the English and Scottish trusts, as to capital structure and the very broad diversification of their investment portfolios, remains the same. However, on account of the high personal taxes in those coutries few, if any, new companies have been formed lately.

**THOUGH A FEW** investment trusts were formed in the United States early in the twentieth century, it was not until the middle twenties that there was any real development of the idea in this country. Although we looked to Great Britain for ideas in organizing investment trusts in America, we adopted only a part of the pattern which I described earlier. For the most part, the investment trusts of the twenties had leverage-type capital structures, but the investment porfolios were typically made up almost entirely of common stocks. The reason for this, of course, was that the conservative approach of the British had no appeal for speculatively-minded Americans in the twenties. Therefore, although they were exceptions, a majority of the investment trusts in the United States suffered very severely during the 1929-1932 period. This meant, of course, that their stockholders suffered. Common stockholders had the "chain" effect of reduced value of portfolio, accentuated often on account of leverage with market values often 40 to 60% below asset value.

Following the disastrous experience of 1929, several efforts were made to develop different kinds of trusts which would do a better job. Thus, the real development of the fixed trust occurred after 1929. This reflected the distrust of management, and the fixed trust was really based on the idea of *no* management. A specific list of securities was approved in advance, and these were the only ones that could be owned by the trust. Once the selection of securities was made, there could be no substitution, regardless of changes in economic conditions, or developments relating to the individual companies. The popularity of this type of trust was short-lived, mainly because it soon became evident that its inflexibility was a great handicap.

**BY THE EARLY** thirties, after the experience with pyramided or leverage-type closed-end trusts, fixed trusts, and semi-fixed trusts, there developed a growing interest in the management-type, open-end companies. Their distinguishing feature, of course, was the redeemability of their shares and the fact that they had only one class of security outstanding. In other words, there was no leverage. Although a very few open-end companies were formed during the twenties, it was not until

Continued on page 54

## With Interstate Secs. Corp.

(Special to THE FINANCIAL CHRONICLE)

CHARLOTTE, N. C. — Park H. Dalton Jr. is now with Interstate Securities Corporation, Commercial Bank Building.







Continued from first page

# As We See It

ployment act emerged. Although there was much debate at the time, and the law as finally passed was somewhat watered down as compared with what some of the dreamers of that day wanted, many a public statement since that time seems to assert that the Federal Government accepts responsibility for the general state of business and in effect pledges itself to take such steps as it may deem necessary and sufficient to prevent untoward developments which would result in extensive unemployment.

### Fear of Depression

In any event, quite without reference to any particular statute, or any particular statement by any politician or any candidate for office, it is well known that the Party now in power fears a depression and unemployment as the devil fears holy water. The late Senator Taft is known to have said that his Party's greatest danger during the next few years was an extensive business setback. The Republican Party has, rightly or wrongly, now been well labeled as the Party of economic depression, thanks to an enterprising publicity organization of the Democratic Party and to the sad experiences following the collapse of 1929. The Democratic Party long suffered from some such designation, and it well knows its power.

Practical politicians are much impressed by all this, and out of their uneasiness grows a very serious danger. That hazard is that steps may be taken which not only fail to lay a basis for sounder business conditions but which will, like so many of those of the New Deal and the Fair Deal, lay up more trouble for the future. The Republican Party, whether it likes to admit it or not, is not without members who are more than half convinced of many of the sophistries of the Roosevelt and the Truman years—or else are of the opinion that failure on their part to follow New Deal and Fair Deal prescriptions would be more than ordinarily hazardous, politically speaking.

It is difficult to be certain in what degree the Administration or any of its members are responsible, if at all, but one can scarcely doubt that considerations of basically this kind were and are behind the change of heart on the part of the Federal Reserve authorities. Rightly or wrongly, these officials were told by many, some of them quite influential, last spring that a continuation of the "independent" course they had apparently laid out for themselves would result in a serious business depression. There is reason to believe that at least some of those who help shape Federal Reserve policy were not convinced of anything of the sort. It may not be too wide of the mark to guess that there were those who believed that the real, perhaps the only, road to ultimate soundness in the business structure lay along the route of what may be regarded as reasonable caution in expanding money supply.

### Money Market Retreat

Yet when the Treasury needed large sums which it had to borrow somewhere, and when signs seemed to be growing that a tight money market situation was in the making, very large open market operations were undertaken, and on top of that member banks' reserve requirements were reduced. There also appeared thinly veiled promises of further easing up of the situation as indications seemed to suggest it later in the year. All this has had obvious effects in the investment and money markets. Whether it has made any great difference in the general rate of business activity appears open to much more question. All in all, it would seem that any notion formerly entertained of getting the national debt into longer and more workable form has been forgotten, possibly abandoned for a more convenient season which, one suspects, may never arrive. Uneasiness about endlessly growing money supply and continually mounting volume of credit seems to have yielded to a greater uneasiness about a business recession.

There is great danger too that the same set of considerations will get in the way of other badly needed reforms. One of them is in the field of taxation. At the moment there appears to be no likelihood at all of any continuation of the Excess Profits Tax or any further delay in reducing individual income taxes after the turn of the year. These changes may of themselves be constructive. The fact remains, however, that the government is still spending more than it is collecting in taxes. The deficit would be still greater should the excess profits revenue disappear and individual income tax collections fall substantially.

Evidently, some other course of revenue must be found to take the place of these taxes. There is, it hardly need be added, opposition to the levy of any sort of additional taxes. Such opposition is gaining strength daily by reason of fear of a depression. There are those already who are talking of a large deficit next year as a prop to business. These same forces are acting to prevent or at the very least to reduce the extent of any freeing of our foreign trade. The list might be extended still further without difficulty. We must not permit fear of depression to lead us into action which would further undermine our economy.

## Purchasing Agents Cite Softening Prices

**Business Survey Committee of National Association of Purchasing Agents finds situation resembles that of 1948, when stage for recession was set, but holds there is now a better inventory position.**

Robert C. Swanton

A composite opinion of purchasing agents, who comprise the National Association of Purchasing Agents Business Survey Committee, whose Chairman is Robert C. Swanton, Director of Purchases, Winchester Repeating Arms Company, New Haven, Conn., reveals no significant improvement in September over August, when it was reported the fall and winter upswing might be a slow starter. Order books are lower and production has only inched up. The conditions seem to be almost parallel with those of September, 1948, when the stage was being set for the 1949 recession. There is one exception: Unworked inventories, which have been undergoing reducing treatment for several months, are much lower and better balanced than in September, 1948.

Prices are softening, led by copper, lead and zinc, this month. Employment is lower, with slightly more layoffs than additions reported, which is a very rare condition for September. Buying policy is short-range, predominantly 60 days and under.

The pressure for business, the survey reports is sharpening in most all line. Foreign competition is more noticeable. Purchasing agents expect business will taper off during the fourth quarter but still be at a high level. The situation is not alarming but calls for caution and close watching. October will have to show a real spurt for industrial business to equal the fourth quarter of 1952.

### Commodity Prices

The industrial purchased materials price structure for September again shows weakness and instability. Price increases are more than balanced out by decreases, nonferrous metals taking the heaviest decline. The long-expected drop in copper and brass prices has occurred. Still pending is the disposition of the large Chilean copper surplus.

The declining order backlog condition of many fabricators has intensified competition. Foreign producers are stepping up selling activity in this country.

### Inventories

Unworked material inventories took another dip in September, the third month in succession that more than 30% have reported lower stocks. Those having inventory increases comment it is due to seasonal pickup, production cutbacks, improved vendor deliveries, strikes, and suppliers shipping ahead of schedule. Lagging order books, availability of materials, lack of confidence in prices, all contribute to the conservative view on material investment. Over-all, stocks are believed to be in better balance and in improved turnover position.

### Employment

More report layoffs than new hirings, a most unusual condition for September. The principal reasons: production curtailments, students returning to school and strikes. The situation is not bad, as 78% report holding to previous high employment or adding to pay rolls. Overtime is fast disappearing and some plants have cut under 40 hours to hold their people. Productivity is improving, as is usual when layoffs and short time occur. Several areas report all types of labor available and better selectivity. Other are looking for skilled help.

### Buying Policy

Future commitment range shows practically no change from the previous cautious view of the markets. Seventy-five percent report holding to "hand-to-mouth" to 60 days in the bulk of their purchases. This policy is supported by falling backlogs, price instability, ready availability, and tight inventory control.

## McConihe Partner in Winslow, Douglas Co.

Winslow, Douglas & McEvoy, 120 Broadway, New York City, members of the New York and American Stock Exchanges, have announced that Malcolm S. McConihe, Jr. has become a general partner of the firm.

Mr. McConihe was formerly Vice-President and Treasurer of Mass Market Publications, Inc., publishers of "Better Living" magazine. Prior to that he was associated with the investment firms of Dillon, Read & Co., Inc., Winthrop, Mitchell & Co. and Harriman & Keech.

## Rejoins Reinholdt, Gardner

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, Mo. — William L. Shaw has rejoined the staff of Reinholdt & Gardner, 400 Locust Street, members of the New York and Midwest Stock Exchanges. Mr. Shaw has recently been with the Mercantile Trust Company.

## With Milwaukee Co.

(Special to THE FINANCIAL CHRONICLE)

MILWAUKEE, Wis. — Jack L. Bischoff has been added to the staff of the Milwaukee Company, 207 East Michigan Street, members of the Midwest Stock Exchange.

*Continued from first page*

# ABA Holds 79th Annual Convention

of Des Moines, Iowa. Homer J. Livingston, President of the First National Bank of Chicago, was elected Vice-President, and Sherman Drawdy, President of the Georgia Railroad Bank & Trust Company, was elected Treasurer.

### Eisenhower Addresses Bankers

Among the speakers at the Convention was President Eisenhower. The President, in addressing the First General Session of the Convention on Sept. 22, expressed his appreciation for the splendid work done by the nation's bankers in "helping sell and distribute the Government's savings bonds to all our people." His Administration, he said, "is not one that sits up in an ivory tower of lonely isolation and gives words of wisdom that all others must obey or be wrong." Rather, he said, "we are here not only to do our duty in government but to learn, and through such meetings as this we learn a lot."

*The President's address in full text follows:*

"My brief appearance before this great Convention is, for me, a very happy opportunity. It is my pleasurable duty to invite you, on behalf of my associates in government and of myself, to the City and to wish for you a very successful and a very enjoyable Convention.

Pres. Eisenhower

"But being here gives me opportunity to express to you something more than the ritualistic words of welcome, no matter how sincere they may be, which they are. It gives me an opportunity for example, to thank you for your splendid work in helping sell and distribute the Government's savings bonds to all our people. With more than 40 million of them owning more than $50 billion worth of government obligations, we know that there is still in our country the incentive and the determination to save, an incentive and a determination that have been responsible for so many of the good things this nation enjoys.

"Beyond this, your coming here brings to the Government a very great opportunity for cooperative work in this whole field of finances and the soundness of money and its circulation and its use. I realize that our Secretary of the Treasury and other members of the Administration appeared before you to give you their latest thinking on certain of the important subjects that interest you, but I want to assure you first of all that this is not an Administration that thinks it has all the answers. It is not an Administration that sits up in an ivory tower of lonely isolation and gives words of wisdom that all others must obey or be wrong. We are here not only to do our duty in government but to learn, and through such meetings as this we learn a lot.

"You people, with your fingers on the pulsebeat of the American economy, come here and, by your presence and by your exchange of thoughts among yourselves and with us, will leave us, we hope, wiser than when you came.

### Thanks Bankers

"So for this kind of thing I come before you and thank you for your help and for you patriotic interest in the whole American scene and what it is doing and where we are going. These are the things that interest America today, and they are going to be solved only as we each, all segments of our economy and our great political life, meet with each other, consult with each other, and therefore reach answers that are truly American, all American, not representative of any particular class or group alone, but for all of us.

"So, for all these reasons, so haltingly expressed, I assure you that this Administration and I are delighted that you are here. We consider it a great honor and a privilege to meet you, to extend greetings, and to exchange ideas.

"Now, my every sincere and best wishes again for a most enjoyable Convention, and hoping that you will come back again."

[*EDITOR'S NOTE: Full texts of addresses made by Messrs. Humphrey, Burgess, Robertson, Benson, Reierson, Sienkiewicz appear elsewhere in today's issue.*]

### Brenton Optimistic of Continued Prosperity

Before the regular sessions of the Convention began, the retiring President W. Harold Brenton, at a press conference, expressed the view business would remain on a plateau and he was confident of continued prosperity, though he admitted bankers have become more cautious in their operations. He cited the adoption of a sort of rule by the banks throughout the nation to restrict auto loans to a period of 24 months on new cars and 12 months on used ones.

W. Harold Brenton

Mr. Brenton denied that the new Administration in Washington was "a bankers' Administration," and referred to the fact that during the Democratic regime there were some sixty odd bankers in Federal positions, considerably more than are now with the Eisenhower Administration. Mr. Brenton also took issue with the charge that there was not enough mortgage money available for home building needs, citing the large accumulations of savings in banks applicable for this purpose. He also denied the charge that current interest rates were unduly high, and defended the Administration's monetary policy in tightening credit.

* * *

### Uniform Commercial Code Discussed

Changes in banking practice and operating procedure that would be brought about by enactment in various states of the proposed Uniform Commercial Code was discussed at the Convention by a panel of prominent bank attorneys. The discussion was held in the Congressional Room of the Willard Hotel, and in the future will be part of the annual meeting of the ABA's State Legislation Committee and Council.

The Uniform Commercial Code is a proposed "comprehensive revision of private commercial law," drafted under the sponsorship of the National Conference of Commissioners on Uniform State Laws and the American Law Institute. If enacted, it would replace existing state laws dealing with such subjects as negotiable instruments, bank collections, chattel mortgages, accounts receivable, factors liens, stock transfers, and trust receipts and would bring within its scope many matters not now covered by legislation.

The Code was adopted this year by the Pennsylvania legislature, to become effective on July 1, 1954. It was also introduced in the legislatures of California, Connecticut, Illinois, Indiana, Massachusetts, and New Hampshire, but was not enacted. In addition, the legislatures of Connecticut, Massachusetts, New York, Oklahoma, and Rhode Island have made provision for study of the Code by interim committees which will make recommendations concerning the desirability of enacting it within the next two years.

The panel which discussed the Code and its effect on the banking business are Robert Brome, Resident Counsel, Bankers Trust Company, New York City; Carl Funk, Partner, Drinker, Biddle and Reath, and Counsel, Philadelphia Clearing House Association, Philadelphia, Pa.; Walter D. Malcolm, Partner, Bingham, Dana & Gould, Boston, Mass., and Chairman of the Committee on the Uniform Commercial Code of the American Bar Association; Emmett F. Smith, Vice-President and Resident Counsel, Chase National Bank, New York City; and George F. Taylor, Partner, Taylor, Hurtt & Weisel, and Director, Commonwealth Trust Company, Pittsburg, Pa.

Sherman Hazeltine, President of the Bank of Arizona, Prescott, Ariz., who is Chairman of the ABA's Committee on State Legislation, served as moderator of the panel discussion.

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### Resolutions Adopted

*Before adjourning, the Convention adopted the following resolutions:*

**Monetary Policy:** Developments since the Federal Reserve-Treasury "accord" of 1951 have demonstrated the importance to the public welfare of flexible monetary policy—including flexibility of bond prices and interest rates. During this period the Federal Reserve System has properly permitted such expansion of credit as has been required to finance increased business activity. At the same time, its policy of permitting some tightening of credit conditions has been effective in discouraging an excessive and inflationary expansion of credit. This policy has been an important factor in stabilizing the value of the dollar and should help to sustain future employment and production.

**The Federal Budget:** The contribution that the United States can make to the cause of world peace depends largely upon our moral, military, and economic strength. With employment and production at record levels, a balanced Federal budget is essential to the maintenance of a strong and stable economy. In balancing the budget, emphasis should be placed upon improved efficiency and elimination of waste in every phase of governmental activity. We heartily approve the progress being made in this direction.

**Foreign Trade:** A nation can sell abroad only as it buys abroad. We believe that the United States should live up to its international responsibilities as the world's greatest creditor and producing nation by continuing to open its markets increasingly to foreign goods. Such a policy will help to create a larger volume of world trade, the eventual restoration of freely convertible currencies, and stronger economies in the United States and other nations of the free world.

We endorse and approve the action of the 83rd Congress in extending the Reciprocal Trade Agreements Act and enacting the Customs Simplification Act. We urge that all practicable steps be taken to demonstrate to the world our determination to lead in the cooperative effort to expand international trade for mutual benefits in prosperity and security.

**Services Performed by Banks:** Banking consists of the performance of services which are essential to all groups in the community, including individuals, producers, and the Federal Government. The overwhelming majority of bank loans represents credit extended to home owners, farmers, consumers, and small business. It is the responsibility of every banker to intensify his efforts within his community to inform the public continuously about the services which his bank performs.

**Savings Bond Program:** The members of the American Bankers Association have continued their efforts to encourage individuals to buy and hold United States Savings Bonds. The Association renews its pledge of support to this program in the public interest.

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### The New President's Acceptance Address

Following the announcement of his election as President of the American Bankers Association at the closing session of the Convention on Sept. 23, Mr. Everett D. Reese delivered the following acceptance address:

"Life is an educational process. We grow, develop, and progress just as long as we continue to put into practice what we have learned. This is the secret of youth for individuals and for organizations. The American Bankers Association is an organization through which we ourselves can learn and which enables us to transmit what we have learned to others. We should continue to improve our knowledge and techniques of banking in order to increase our usefulness to the people. If we serve them well, they will appreciate the important part that private banking plays in their lives.

"It is essential that we as bankers provide financial leadership of the highest type and help to inculcate a clear understanding of the sound principles of money and finance. If the people are served well by us in their financial needs and have such understanding, we will have made much progress in preventing any further inroads of the government into the private banking field.

"We must work constructively with those in charge of our government who have much to do with shaping the course of the future of our country. However, in our position of world leadership, we must prove that we can manage our affairs under free enterprise in such a way as to maintain good levels of employment and activity without war or government assistance.

"We should support consistently those in government who are trying to reduce expenses, cut taxes, eliminate bureaucracy, and foster a democratic form of government.

"An enlightened and progressive banking system must play its part in maintaining full employment and perpetuating a sound and ever increasing prosperity for all our people. The American Bankers Association can be a large factor in making our efforts more effective. I hope that I may be able to make some contribution in helping to accomplish these objectives, as well as to continue other important work that has been undertaken and so ably carried on by those responsible for the Association's affairs.

"You have paid me a great honor in naming me President of your Association. I accept this honor with humility and deep appreciation."

### Backgrounds of New Top ABA Officials

Thumbnail sketches of the new ranking officers of the American Bankers Association follow:

**EVERETT D. REESE**
**President**

Everett D. Reese, who was elected President of the American Bankers Association at the closing session of the Convention is President of The Park National Bank of Newark, Newark, Ohio. Mr. Reese was advanced from the Vice-Presidency of the Association.

Mr. Reese was born in Columbus, Ohio. He was graduated from Ohio State University in 1919, after which he served as an instructor in the School of Commerce at Ohio State University, 1919-20; Georgia School of Technology at Atlanta, 1920-21; and (part-time) at Denison University, 1922-23.

He joined the staff of The Park National Bank in 1921 and became its President and a director in 1926.

Mr. Reese was President of the Ohio Bankers Association in 1942-43.

In the American Bankers Association, he served on the Executive Council for a three-year term —1943-46—and on the Federal Legislative Council during the same period. He was a member of the Small Business Credit Commission from the time of its inception in 1944 to 1952, and chairman of this Commission from 1948 to 1952. He was also a member of the Credit Policy Commission from 1949 to 1952. He was elected Vice-President of the ABA at the 78th Annual Convention in Atlantic City, New Jersey, Oct. 1, 1952.

In 1951 and 1952 he served as a member of the National Voluntary Credit Restraint Committee and as a member of the Small Business Advisory Committee to the Secretary of Commerce.

**HOMER J. LIVINGSTON**
**Vice-President**

Homer J. Livingston, elected Vice-President of the American Bankers Association, is President and director of The First National Bank of Chicago, Chicago, Ill.

Mr. Livingston is a native of Chicago and received his education in its public schools. He was graduated from the John Marshall Law School, Chicago, in 1924, with an L.L.B. degree and in 1952 was awarded an honorary L.L.D. degree from Washington and Jefferson College, Washington, Pa.

Mr. Livingston entered the banking business with The First National Bank of Chicago in 1922. In 1930, be became an assistant attorney; in 1934, attorney; in 1944, counsel; and in 1945, Vice-President. He became a director in 1948 and President in 1950.

In the American Bankers Association, Mr. Livington was a member of the Committee on Federal Legislation and chairman of the Subcommittee on Bankruptcy from 1940 to 1950 and a member of the Credit Policy Commission from 1949 to 1953. He served as a member of the Legislative Committee and the Council of Administration of the Illinois Bankers Association in 1944-45.

Mr. Livingston is chairman of the executive committee and chairman of the stock trustees of the Monon Railroad, a director of the Continental Casualty Company and the Continental Assurance Company, and President of the National Safe Deposit Company.

He has long been active in Chicago civic affairs and is at present a trustee of the University of Chicago; trustee and treasurer, The Art Institute of Chicago; Commissioner of the Chicago Medical Center District; director and treasurer, Chicago Boys Club, Inc.; and trustee of the Chicago

Child Care Society and of the Farm Foundation.

**SHERMAN DRAWDY**
**Treasurer**

Sherman Drawdy, President of the Georgia Railroad Bank & Trust Company, Augusta, Ga., was elected Treasurer of the American Bankers Association at a meeting of the Association's new Executive Council held at the close of the Association's 79th Annual Convention.

Mr. Drawdy was born in Groveland, Florida, and attended schools there.

He entered the banking business in 1921 as a clerk in the Bank of Groveland, advancing to cashier in 1924. In 1926 he joined the Florida State Banking Department as an examiner and continued in that position for seven years. In 1933 he jointed the Federal Deposit Insurance Corporation, and shortly thereafter he became senior examiner in the Sixth Federal Reserve District for the Federal Reserve Bank of Atlanta.

Mr. Drawdy became associated with the Georgia Railroad Bank & Trust Company in 1936 as Vice-President and Comptroller. After being advanced to Vice-President and cashier and later to First Vice-President and cashier, he was elected President in 1947.

Mr. Drawdy has long been active in bankers' association affairs and served as President of the Georgia Bankers Association. In the American Bankers Association, he was state Vice-President for Georgia of the Organization Committee in 1946-47, a regional Vice-President of the Organization Committe from 1947 to 1949, a member of the Federal Legislative Council and of the Executive Council from 1949 to 1952, and a member of the State Banking Departments Committee of the State Bank Division in 1950-51. He was a member of the Executive Committee of the State Bank Division from 1950 to 1953 and of the Division's Legislation Committee from 1951 to 1953, Georgia state chairman of the Treasury Savings Bonds Committee from 1951 to 1953, and a member of the Commerce and Marine Commission in 1952-53.

Mr. Drawdy is President of the Georgia Railroad and Banking Company; and a director of North Augusta Banking Company, Jackson Cash Depository, Augusta Lumber Company, Castleberry's Food Company, and Cato Stores, Inc.

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**New Division Presidents**

The officers elected for the four divisions and the State Association Section of the American Bankers Association follow:

*National Bank Division*

**President:** Henry A. Kugeler, President, The Denver National Bank, Denver, Colo.

*Savings and Mortgage Division*

**President:** John W. Kress, Executive Vice-President, The Howard Savings Institution, Newark, N. J.

*State Bank Division*

**President:** Harry M. Arthur, President, Arthur State Bank, Union, S. C.

*Trust Division*

**President:** N. Baxter Maddox, Vice-President and Trust Officer, The First National Bank of Atlanta, Atlanta, Ga.

*State Association Section*

**President:** R. Irby Didier, Executive Secretary, Louisiana Bankers Association, Baton Rouge, La.

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**Membership Continues Upward**

Barney J. Ghiglieri, President of the Citizens National Bank, Toluca, Ill., Chairman of the Association's Organization Committee, announced to the convention that 16,873 banks, and branches were members of the ABA on Aug. 31.

## Heads of ABA Divisions and State Association Section

Henry A. Kugeler

**NEW ABA OFFICIALS**

Henry A. Kugeler is newly elected President of the ABA's *National Bank Division;* John W. Kress, President of *Savings and Mortgage Division;* Harry M. Arthur, President of *State Bank Division;* N. Baxter Maddox, President of *Trust Division;* and R. Irby Didier, President of *State Association Section.*

John W. Kress

Harry M. Arthur

N. Baxter Maddox

R. Irby Didier

The membership is made up of 14,253 banks, 2,450 branches, and 170 members in foreign countries. During the past year, the Association's membership increased by 83 banks and branches. Included are over 98% of all the banks in the United States and over 99% of the nation's banking resources.

In 20 states and the District of Columbia, every bank is a member of the Association; and in five states, only one bank is a nonmember. The states with 100% membership are Alabama, Arizona, Arkansas, Colorado, Delaware, Idaho, Iowa, Louisiana, Michigan, Missouri, Montana, Nevada, New Mexico, North Carolina, Oregon, Utah, Vermont, Washington, Wisconsin and Wyoming.

The ABA has members in every state in the Union and in Alaska, Bermuda, Brazil, Canada, Cuba, France, Great Britain, Hawaii, India, Japan, Mexico, Philippine Islands, Puerto Rico, Salvador and the Virgin Islands.

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**Next Convention To be Held In Atlantic City**

Before the final adjournment of the Convention, the newly elected President of the ABA announced that the next annual Convention of the American Bankers Association will be held in Atlantic City, N. J., Oct. 17-20, 1954.

The last Convention of the ABA to be held in Atlantic City was in 1952. During the 1954 meeting of the nation's bankers, the New Jersey Bankers Association will participate and share in management of the Convention.

### With Dean Witter Staff

(Special to The Financial Chronicle)

FRESNO, Calif.—Fred H. Kurz has been added to the staff of Dean Witter & Co., Patterson Building.

### Joins A. M. Kidder Staff

(Special to The Financial Chronicle)

FT. MYERS, Fla. — Denver G. Mann has become affiliated with A. M. Kidder & Co., 915 First St.

### King Merritt Adds

(Special to The Financial Chronicle)

NOKOMIS, Fla.—Ernest D. LeMay has become connected with King Merritt and Company, Inc.

## *Railroad Securities*

### Illinois Central

Few, if any, railroads have done such a comprehensive debt retirement job in the past 10 or 12 years as Illinois Central. In the years 1941-1952, inclusive, non-equipment debt outstanding in the hands of the public was reduced by $180,667,000, leaving a balance as of the end of last year of only $151,234,000. This included $11,899,000 of the old Refunding 4s and 5s, 1955, all that is left of the once formidable near term maturity schedule. The company has a standby agreement with a group of institutions to purchase, at the discretion of Illinois Central, $12 million of the road's new Consolidated Mortgage bonds to take care of this maturity. However, the company has continued to buy in the bonds and presumably will be able to take care of what balance may remain without exercising the option.

While a phenomenal job has been done, the management obviously considers it advisable, or at least prudent, further to pare the senior capitalization during this period of peak earning power. Common stockholders have been rewarded by successive increases in annual dividends from the original $3.00 rate to the current $5.00 instituted at the last meeting, and many analysts feel that another boost is not too far away. Even with stockholders being treated more liberally there is cash left over for debt. The company has called for tenders, which may be made up to the close of business Oct. 15, of the debenture 4¾s, 1966 and the 6% preferred stock, both of which are callable as a whole only. The debentures were outstanding at $34,743,000 at the end of last year and the preferred at 186,457 shares, $100 par. There is considerable question as to how many holders will tender their securities at prices considered reasonable to the management but at least some further improvement in the already strong capital structure appears assured.

As for the railroads as a whole, stocks continue in the doldrums and the August earnings statements that have been coming out in the past two weeks have been somewhat mixed. It is indicated that for the Class I carriers as a whole August was probably better than last year. This is by no means true of even all of the major roads. For instance, in the east New York Central reported a year-to-year gain for the month while both Baltimore & Ohio and Pennsylvania had declines. In the case of Baltimore & Ohio the drop in earnings was quite modest but for Pennsylvania it amounted to roughly $2.7 million or nearly 44%. Among the speculators who had not been following results of a year ago very closely the performance of Pennsylvania in August came as quite a shock.

There is a simple explanation in the maintenance accounts. Last year, emerging from the seriously adverse influence of the prolonged steel strike, and facing the prospect of labor disturbances in the coal fields, Pennsylvania last August continued a policy of curtailed maintenance work. It was not until September that such work was resumed at the normal pace. In August, 1953 freight revenues increased $4,896,056 over a year earlier, to $71,187,821. Passenger revenues dipped more than 10% but with mail, express, and other categories up the total revenues rose $4,271,882. The all-important transportation costs were held under good control but the aggregate of maintenance accruals jumped almost $7 million. This was the reason for the decline in net.

For the full eight months the picture is considerably better. Net income for the 1953 interim was $25,766,126 compared with $15,427,452 reported a year earlier. The gain of $10,338,674 was equivalent to $0.79 a share of stock outstanding. As comparisions in September will be with a period of more nearly normal maintenance last year, the showing should be considerably better than in August and it is further indicated that earnings will hold up well in the final quarter. Thus for the full year share results are expected to run $1.00, or so, above the $2.81 (unconsolidated) earned in 1952.

## Cleveland Analysts Regional Conference

CLEVELAND, Ohio — The Cleveland Society of Security Analysts will hold their Great Lakes Regional Conference, Oct. 13 and 14 at the Hotel Statler. Some 75 to 100 analysts, primarily from the eastern seaboard and Middle West are expected to attend.

Scheduled for Oct. 13 are a railroad tour of industrial Cleveland, Utility and Coal Forum; luncheon, with Paul A. Murphy of Oglebay-Norton Co., speaking on "The Outlook for Security Markets," and James M. Dawson of the National City Bank of Cleveland, speaking on "The Outlook for Business." In the afternoon there will be two management conferences followed by cocktails aboard the ore boat, "Charles M. White," sponsored by Republic Steel Corporation. Dinner will be at the Hotel Statler, Charles M. White, President of Republic Steel Corporation, speaker.

On Wednesday, field trips are planned to the Diamond Alkali Co. and Clevite Corporation, and to the Industrial Rayon Corp. and Thompson Products Co. A cocktail party for both field trips will be held at the Thompson Products Antique Auto Museum.

Republic Steel has invited all out-of-town analysts planning to stay in Cleveland overnight on Oct. 14 to attend a special dinner.

Special programs for the women attending the meeting are planned for both Tuesday and Wednesday.

## Chase National Bank Group Offers Bonds Of Territory of Hawaii

The Chase National Bank heads a syndicate offering $5,500,000 Territory of Hawaii 2.90% public improvement bonds, series A, issue of 1953, due Sept. 15, 1956 to 1973 inclusive.

The bonds are priced to yield from 1.85% to 3%, according to maturity. These bonds, in the opinion of counsel, will constitute valid and legally binding obligations of the Territory of Hawaii, payable from the consolidated revenues of the Territory, and will be exempt as to both principal and interest from all present Federal, state, municipal and local taxes, except estate, inheritance and gift taxes.

Also participating in the offering are: Harris Trust and Savings Bank; Salomon Bros. & Hutzler; Drexel & Co.; Blair, Rollins & Co. Incorporated; Mercantile Trust Company, St. Louis; Equitable Securities Corporation; Laurence M. Marks & Co.; Hayden, Miller & Co.; Malvern Hill & Company Incorporated; Green, Ellis & Anderson; Central Republic Company (Incorporated); First Securities Company of Chicago; R. L. Day & Co.; Andrews & Wells, Inc.; and Freeman & Company.

### With J. Barth & Co.

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—Frank S. Harryman has become associated with J. Barth & Co., 210 West Seventh Street. He was formerly with E. F. Hutton & Company.

# News About Banks and Bankers

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED
CAPITALIZATIONS

At the regular meeting of the Board of Directors of **The National City Bank of New York** held on Sept. 29, Leland S. Brown, formerly an Assistant Vice-President, was appointed a Vice-President.

Mr. Brown, who came to the Bank in 1930, upon graduation from Northwestern University, has been assigned to the Fifth Avenue Branch since 1946. He will now be associated with the Senior Management of National City's Branch at 42nd Street and Madison Avenue.

* * *

The entire officer staff of the **United States Trust Company of New York** gave a surprise dinner to the bank's President, Benjamin Strong, on Sept. 28. The occasion marked the 20th anniversary of Mr. Strong's association with the bank, which this year is celebrating its 100th anniversary. A large silver tray, inscribed with the signatures of all officers, was presented by James M. Trenary, Vice-President.

Mr. Strong represents the fifth generation of his family in direct descent to occupy a position of prominence in the banking and commercial life of Wall Street.

* * *

Appointment of Charles A. Becker as an Assistant Vice-President of **Manufacturers Trust Company, New York,** was announced by Horace C. Flanigan, President.

Mr. Becker came to the bank in 1951. Previously Mr Becker was associated with the Commercial National Bank and Trust Company.

Mr. Becker will be assigned to the Out-of-Town Business Department, Southern-Western Division.

* * *

A proposed merger of the **Peoples National Bank and Trust Company of New Rochelle, N. Y.** and the **New Rochelle Trust Company, New Rochelle, N. Y.** under discussion since July, was approved on Sept. 29 at special meetings of directors of both banks. Meetings of stockholders were set for Oct. 29 to vote on the plan, with Nov. 2 the goal for putting the merger into effect.

The new bank, to be known as the **Westchester Bank and Trust Company, New Rochelle, N. Y.,** would be financed partly by the five sons of John D. Rockefeller, Jr. They would acquire 20% of the stock, according to Oliver W. Birchhead, President of the Peoples National, and Ralph T. Tyner, Jr., President of the New Rochelle Trust.

The bank, with eight offices and $62,000,000 in assets, would be the second largest in Westchester. Sponsors of the merger have been looking for other banks to bring into the plan.

The plans call for an increase in New Rochelle Trust shares from 100,000 of $10 par value to 190,000 of the same value. Of the new shares, 53,200 would be given to Peoples National shareholders at a ratio of 1.9 shares for each share now held, while New Rochelle Trust shareholders would get one share for each share now held.

The Hills Realty Company, controlled by the Rockefellers, would buy 36,800 shares at $32.50 a share.

The new board of directors would comprise fifteen members. Selected from the old Peoples National board would be Mr. Birckhead, Oscar A. De Lima, Leslie B. Gillie, Robert P. Smith and John H. Walsh. From the New Rochelle Trust board would be J. Lester Albertson, John M. Joyce, Jr., Harold J. Plunkett, Edward P. Prezzano, Gervin C. Stein, Dr. Holland N. Stevenson, Walter H. Young and Ralph T. Tyner, Jr. The Rockefellers would be represented on the new board by Richard H. Mansfield and John E. Lockwood.

Directors of the banks would serve on an advisory board and all officers and employees would be retained, the banks said. Mr. Birckhead would be Chairman and Mr. Tyner, President. At first, the headquarters would be located in New Rochelle and later in White Plains.

* * *

Joseph A. Kaiser, President of the Williamsburgh Savings Bank, today was elected Chairman, **Group Five Savings Bank Association,** at its Annual Meeting.

Newly elected Chairman of the Group Five Executive Committee is John W. Hooper, President of the Lincoln Savings Bank. Elected to serve on that Committee were:

David B. McVean, President, Bay Ridge Savings Bank.

Eugene A. Colligan, Vice-President, Long Island City Savings Bank.

George M. Burns, President, Riverhead Savings Bank.

This will be Mr. Burns' third successive year as a member of the Executive Committee.

Re-elected for the fourth successive year as Secretary-Treasurer was Clinton L. Miller, Assistant Vice-President of The Dime Savings Bank of Brooklyn.

Group Five Savings Banks Association is composed of the 36 savings banks in Brooklyn, Queens, Long Island and Staten Island, representing deposits of $4,781,445,000.

* * *

Stockholders of **Central-Penn National Bank of Philadelphia, Pa.** as of Sept. 24, are being offered rights to subscribe to 125,000 shares of unissued capital stock at a price of $30 per share on the basis of one new share for each three shares held. A syndicate headed by Stroud & Company, Inc. has agreed to underwrite any unsubscribed shares at the expiration of the rights on Oct. 13.

Sales of the stock will increase the bank's capital to 500,000 shares of $10 par value and give Central-Penn capital funds in excess of $22,000,000.

Other members of the offering syndicate include—Drexel & Co.; Kidder, Peabody & Co.; Merrill Lynch, Pierce, Fenner & Beane; Smith, Barney & Co.; Hemphill, Noyes & Co.; Janney & Co.; Biddle, Whelen & Co.; Butcher & Sherrerd; Newburger & Company; Yarnall & Co.; Battles & Company, Inc.; Hallowell, Sulzberger & Co.; Blair, Rollins & Co. Incorporated; Boenning & Co.; Parrish & Co.; Thayer, Baker & Co.; Woodcock, Hess & Co. Incorporated; Brooke & Co.; C. C. Collings and Company Incorporated; Schmidt, Poole, Roberts & Parke; Suplee, Yeatman & Company, Inc., and Wurts, Dulles & Co.

* * *

**Girard Trust Corn Exchange Bank, Philadelphia, Pa.,** a State member of the Board of Governors of the Federal Reserve System and **National Bank of Germantown and Trust Company, Philadelphia, Pa.,** merged under the charter and title of **Girard Trust Corn Exchange Bank** effective as of Sept. 14. A branch was established in the former location of National Bank of Germantown and Trust Company.

* * *

The Board of Directors of **Mercantile Trust Company of Baltimore, Md.** and of **Safe Deposit and Trust Company of Baltimore, Md.** at separate meetings held on Sept. 25, approved a proposal for the merger of these institutions. The form of merger agreement has been approved by the Bank Commissioner of Maryland and the merger proposal is being submitted to the stockholders of the respective institutions for their consideration and action at separate meetings to be held simultaneously Oct. 19, 1953.

The merged Trust Company will be State chartered and will be known as **Mercantile-Safe Deposit and Trust Company, Baltimore, Md.** Safe Deposit was originally chartered in 1864, Mercantile in 1884.

The merged Trust Company will have 250,000 shares of capital stock of the par value of $20 per share, of which 150,000 shares will be issued in exchange for the 30,000 outstanding shares of stock of the Mercantile Trust Company (of the par value of $50 per share) and 100,000 shares will represent the presently outstanding 100,000 shares of stock of the Safe Deposit and Trust Company (of the par value of $20 per share).

The principal executive officers of the merged Trust Company will be Messrs. Fred G. Boyce, Jr. and Thomas B. Butler. Mr. Boyce, now Chairman of the Board and President of the Mercantile Trust Company, will become Chairman of the Board of the combined institution; and Mr. Butler, now President of the Safe Deposit and Trust Company, will be the President. Mr. D. Luke Hopkins, Executive Vice President of the Safe Deposit and Trust Company, will occupy the same position in the merged institution. Messrs. John K. Brigstocke, John R. Crunkleton, Anthony F. Dempsey, Gordon E. Kellenberger, Arthur C. Levering, John E. Motz, R. S. Opie and George Pausch, now senior officers of the Mercantile or of the Safe Deposit, will be Senior Vice-Presidents of the merged institution, and Mr. Levering will, in addition, become Treasurer and Mr. Crunkleton will also become Secretary of the combined institution.

In general the officers of each of the constituent Trust Companies will continue to hold the same position in the merged institution and the personnel of both institutions will be retained by the combined Trust Company.

Banking and trust services will be continued at the three present locations: Calvert and Redwood Streets; 13 South Street, and Charles and Chase Streets.

The combined institution will have a capital and surplus of $15,000,000, with undivided profits of more than $2,000,000 and total resources of approximately $100,000,000.

* * *

**National Bank of Detroit, Mich.** shareholders on Sept. 24 set a price of $45 per share on 313,200 shares to be offered to shareholders on the basis of one additional share for each five shares held of record Sept. 24, 1953, Charles T. Fisher, Jr., President, announced following a special meeting. Shareholders' rights to subscribe will expire Oct. 15, 1953.

These shares are part of 684,000 additional shares which were authorized for issuance at the meeting and the balance, amounting to 370,800 shares, are to be distributed as a stock dividend at the rate of 19.732% payable to shareholders of record Oct. 22, 1953.

A nationwide group of investment firms headed by Morgan Stanley & Co. is underwriting the cash offering to shareholders.

The stock dividend will be payable on the 313,200 additional shares now being offered for subscription as well as on the 1,566,000 shares presently outstanding, and will bring the total number of shares outstanding to 2,250,000. Upon completion of these steps total capital funds of the bank will be increased to approximately $92,000,000 from $72,998,687 as of Aug. 31, 1953.

Continued from page 10

# Government Will Stop Competing With Business

trols shackled on the wrists of free people.

### "Sneak" Nationalization Should Be Resisted

Nationalization of industry may be rammed down the throats of capital and labor in some parts of the Old World. But every open or sneak move in that direction here should be resisted by the free and independent people of the United States.

Of course, Americans want government to provide prompt assistance in emergencies and, until other means may be found, to give adequate support to agriculture and several other segments of the economy. But they also have supreme confidence in private enterprise. This Administration has similar views and is taking constructive action in this direction.

The Administration has removed controls on prices and non-strategic materials.

It recommended and the Congress set up a new Small Business Administration to provide for the special needs of smaller business concerns.

In the Department of Commerce we are launching a new Business and Defense Services Administration. It not only will continue necessary defense mobilization functions of the old National Production Authority but also it will offer new services to stimulate industry and employment.

Never underestimate the strength of the American economy or its future possibilities. Through our competitive enterprise system the American people are enjoying the greatest prosperity in history.

In appraising the business outlook, I have some rough estimates on the whole third quarter that will end next week. These data will be firmed up and published later, when complete returns for the period are in. The picture that I give you is based in part on this advance information.

This picture shows that personal income continues to rise. That means that disposable personal income—what the consumer has to spend out of income—is still going up. Personal consumption expenditures are expected to mount, meaning that the consumer market is still growing.

Civilian employment at 62 million — seasonally adjusted — and average hours worked per week have not changed much in recent months.

Business activity generally continues at a high rate. As a result of the general expansion of sales, corporate profits have expanded over the year-ago rates.

Inventories are rising, according to our latest data, but we don't expect so large an accumulation this quarter as in the second quarter.

Plant and equipment outlays have maintained an upward trend through the third quarter. Although businessmen have indicated intentions to spend somewhat less on new facilities in the fourth quarter, the indicated 1953 total is about 5% above last year.

Durable goods purchases are at a very high level. Summer declines in passenger car production and sales are offset by increases in furniture and household equipment sales. Consumer buying of nondurable goods and services both continue up.

So, in making your plans, take the following factors into consideration:

(1) The momentum of current business activities.

(2) The expectation of certain adjustments. Some of these already have taken place without disturbing the overall picture.

(3) The sound programs of the Administration in the field of money and finance and in the reduction of the unnecessary costs of government.

(4) The assurance that the Administration has plans for emergencies.

(5) The further assurance that the Administration will not hesitate to use the vast power of the Federal Government in conjunction with private enterprise to prevent an old-fashioned depression.

(6) The limitless possiblities for economic stability and growth. Among these positive factors are: adequate national defense; new products of research; new markets created by both migration and growth of population; wise policies to stimulate world trade and investment abroad; and—perhaps the most important factor of all—the confidence of Americans in themselves.

In conclusion, let me repeat: The economic climate today is good. Of course, a fluid economy is never static. Adjustments occur. In going from controls to more free enterprise, the transition itself enchances somewhat the number of minor adjustments.

We should not blink our eyes at fluctuations as they take place from time to time.

It is realistic to recognize "soft spots." It *also* is realistic to recognize *all* the facts, including the fact that our overall economy is in sound health and has a strong constitution. It has limitless possibilities for growth.

Basing my judgment on the facts, I am a realistic optimist about the future.

# Wall St. Riders Reelect Struckmann

G. H. Struckmann

At the annual meeting of the Wall Street Riding Club, Inc., the following were elected officers for the coming year:

Gerhard H. Struckmann was again unanimously elected President. He has held this office for many, many years. Mrs. Mildred M. Butler also was reelected as Vice-President. Mrs. Helen McGuire was elected Treasurer, and Miss Ruth Bab, Secretary.

# Indications of Current Business Activity

**The following statistical tabulations cover production and other figures for the latest week or month available. Dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date:**

| | | Latest Week | Previous Week | Month Ago | Year Ago |
|---|---|---|---|---|---|
| **AMERICAN IRON AND STEEL INSTITUTE:** | | | | | |
| Indicated steel operations (percent of capacity) | Oct. 4 | §94.9 | *95.1 | 90.5 | 105.7 |
| Equivalent to— | | | | | |
| Steel ingots and castings (net tons) | Oct. 4 | §2,139,000 | *2,144,000 | 2,040,000 | 2,195,000 |
| **AMERICAN PETROLEUM INSTITUTE:** | | | | | |
| Crude oil and condensate output—daily average (bbls. of 42 gallons each) | Sept. 19 | 6,494,900 | 6,506,100 | 6,618,700 | 6,518,350 |
| Crude runs to stills—daily average (bbls.) | Sept. 19 | ¶6,992,000 | 7,216,000 | 7,109,000 | 7,075,000 |
| Gasoline output (bbls.) | Sept. 19 | 24,687,000 | 24,858,000 | 25,182,000 | 23,980,000 |
| Kerosene output (bbls.) | Sept. 19 | 2,145,000 | 2,215,000 | 2,334,000 | 2,728,000 |
| Distillate fuel oil output (bbls.) | Sept. 19 | 9,804,000 | 10,244,000 | 10,324,000 | 10,278,000 |
| Residual fuel oil output (bbls.) | Sept. 19 | 8,529,000 | 8,816,000 | 8,956,000 | 8,525,000 |
| Stocks at refineries, bulk terminals, in transit, in pipe lines— | | | | | |
| Finished and unfinished gasoline (bbls.) at | Sept. 19 | 143,740,000 | 143,467,000 | 142,334,000 | 118,315,000 |
| Kerosene (bbls.) at | Sept. 19 | 37,358,000 | 36,799,000 | 33,769,000 | 34,680,000 |
| Distillate fuel oil (bbls.) at | Sept. 19 | 126,189,000 | 125,664,000 | 113,601,000 | 112,472,000 |
| Residual fuel oil (bbls.) at | Sept. 19 | 52,164,000 | 51,760,000 | 50,844,000 | 53,484,000 |
| **ASSOCIATION OF AMERICAN RAILROADS:** | | | | | |
| Revenue freight loaded (number of cars) | Sept. 19 | 823,884 | 710,554 | 817,431 | 873,596 |
| Revenue freight received from connections (no. of cars) | Sept. 19 | 654,861 | 595,572 | 667,774 | 719,147 |
| **CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:** | | | | | |
| Total U. S. construction | Sept. 24 | $341,242,000 | $180,821,000 | $214,331,000 | $317,149,000 |
| Private construction | Sept. 24 | 159,550,000 | 101,561,000 | 61,850,000 | 127,486,000 |
| Public construction | Sept. 24 | 181,692,000 | 79,260,000 | 152,481,000 | 189,663,000 |
| State and municipal | Sept. 24 | 165,701,000 | 58,132,000 | 131,784,000 | 54,880,000 |
| Federal | Sept. 24 | 15,991,000 | 21,128,000 | 20,697,000 | 134,783,000 |
| **COAL OUTPUT (U. S. BUREAU OF MINES):** | | | | | |
| Bituminous coal and lignite (tons) | Sept. 19 | 9,665,000 | 8,115,000 | 9,570,000 | 11,574,000 |
| Pennsylvania anthracite (tons) | Sept. 19 | 609,000 | 480,000 | 550,000 | 891,000 |
| Beehive coke (tons) | Sept. 19 | 88,400 | 80,200 | 96,800 | 90,900 |
| **DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1947-49 AVERAGE = 100** | Sept. 19 | 120 | 102 | 100 | 113 |
| **EDISON ELECTRIC INSTITUTE:** | | | | | |
| Electric output (in 000 kwh.) | Sept. 26 | 8,353,541 | 8,394,707 | 8,539,557 | 7,624,747 |
| **FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET, INC.** | Sept. 24 | 152 | 182 | 182 | 156 |
| **IRON AGE COMPOSITE PRICES:** | | | | | |
| Finished steel (per lb.) | Sept. 22 | 4.634c | 4.634c | 4.634c | 4.376c |
| Pig iron (per gross ton) | Sept. 22 | $56.59 | $56.59 | $56.76 | $55.26 |
| Scrap steel (per gross ton) | Sept. 22 | $35.33 | $37.17 | $41.67 | $42.00 |
| **METAL PRICES (E. & M. J. QUOTATIONS):** | | | | | |
| Electrolytic copper— | | | | | |
| Domestic refinery at | Sept. 23 | 29.700c | 29.700c | 29.575c | 24.200c |
| Export refinery at | Sept. 23 | 28.225c | 28.900c | 29.275c | 35.425c |
| Straits tin (New York) at | Sept. 23 | 83.750c | 81.000c | 81,250c | 121.500c |
| Lead (New York) at | Sept. 23 | 13.500c | 13.500c | 14.000c | 16.000c |
| Lead (St. Louis) at | Sept. 23 | 13.300c | 13.300c | 13.800c | 15.800c |
| Zinc (East St. Louis) at | Sept. 23 | 10.000c | 10.000c | 11.000c | 13.625c |
| **MOODY'S BOND PRICES DAILY AVERAGES:** | | | | | |
| U. S. Government Bonds | Sept. 29 | 94.70 | 94.17 | 92.85 | 95.76 |
| Average corporate | Sept. 29 | 103.80 | 103.13 | 103.80 | 109.42 |
| Aaa | Sept. 29 | 108.34 | 107.62 | 108.34 | 113.70 |
| Aa | Sept. 29 | 105.69 | 105.00 | 105.86 | 111.62 |
| A | Sept. 29 | 103.47 | 102.80 | 103.13 | 108.88 |
| Baa | Sept. 29 | 97.94 | 97.78 | 98.25 | 103.64 |
| Railroad Group | Sept. 29 | 101.97 | 101.31 | 102.13 | 106.21 |
| Public Utilities Group | Sept. 29 | 103.30 | 102.63 | 103.13 | 109.24 |
| Industrials Group | Sept. 29 | 106.04 | 105.69 | 106.21 | 112.75 |
| **MOODY'S BOND YIELD DAILY AVERAGES:** | | | | | |
| U. S. Government Bonds | Sept. 29 | 2.87 | 2.91 | 3.01 | 2.79 |
| Average corporate | Sept. 29 | 3.52 | 3.56 | 3.52 | 3.20 |
| Aaa | Sept. 29 | 3.26 | 3.30 | 3.26 | 2.97 |
| Aa | Sept. 29 | 3.41 | 3.45 | 3.40 | 3.08 |
| A | Sept. 29 | 3.54 | 3.58 | 3.56 | 3.23 |
| Baa | Sept. 29 | 3.88 | 3.89 | 3.86 | 3.53 |
| Railroad Group | Sept. 29 | 3.63 | 3.67 | 3.62 | 3.38 |
| Public Utilities Group | Sept. 29 | 3.55 | 3.59 | 3.56 | 3.21 |
| Industrials Group | Sept. 29 | 3.39 | 3.41 | 3.38 | 3.02 |
| **MOODY'S COMMODITY INDEX** | Sept. 29 | 405.9 | 411.6 | 417.1 | 427.0 |
| **NATIONAL PAPERBOARD ASSOCIATION:** | | | | | |
| Orders received (tons) | Sept. 19 | 236,069 | 199,338 | 199,211 | 215,865 |
| Production (tons) | Sept. 19 | 264,379 | 201,235 | 261,470 | 234,715 |
| Percentage of activity | Sept. 19 | 100 | 76 | 97 | 93 |
| Unfilled orders (tons) at end of period | Sept. 19 | 523,839 | 552,959 | 507,572 | 467,535 |
| **OIL, PAINT AND DRUG REPORTER PRICE INDEX—1949 AVERAGE = 100** | Sept. 25 | 105.62 | 105.77 | 106.00 | 109.21 |
| **ROUND-LOT TRANSACTIONS FOR ACCOUNT OF MEMBERS, EXCEPT ODD-LOT DEALERS AND SPECIALISTS:** | | | | | |
| Transactions of specialists in stocks in which registered— | | | | | |
| Total purchases | Sept. 5 | 687,430 | 648,690 | 580,585 | 409,430 |
| Short sales | Sept. 5 | 102,110 | 84,870 | 110,440 | 75,540 |
| Other sales | Sept. 5 | 606,360 | 583,200 | 506,500 | 365,150 |
| Total sales | Sept. 5 | 708,470 | 668,070 | 616,940 | 440,690 |
| Other transactions initiated on the floor— | | | | | |
| Total purchases | Sept. 5 | 139,100 | 121,890 | 119,790 | 80,410 |
| Short sales | Sept. 5 | 21,200 | 12,100 | 12,940 | 7,400 |
| Other sales | Sept. 5 | 114,960 | 141,480 | 109,360 | 84,300 |
| Total sales | Sept. 5 | 136,160 | 153,580 | 122,300 | 91,700 |
| Other transactions initiated off the floor— | | | | | |
| Total purchases | Sept. 5 | 214,895 | 222,050 | 213,250 | 173,320 |
| Short sales | Sept. 5 | 39,850 | 40,950 | 51,860 | 26,070 |
| Other sales | Sept. 5 | 204,970 | 230,783 | 332,995 | 201,075 |
| Total sales | Sept. 5 | 244,820 | 271,733 | 384,855 | 227,145 |
| Total round-lot transactions for account of members— | | | | | |
| Total purchases | Sept. 5 | 1,041,425 | 992,630 | 913,625 | 663,160 |
| Short sales | Sept. 5 | 163,160 | 137,920 | 175,240 | 109,010 |
| Other sales | Sept. 5 | 926,290 | 955,463 | 948,855 | 650,525 |
| Total sales | Sept. 5 | 1,089,450 | 1,093,383 | 1,124,095 | 759,535 |
| **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 | Sept. 12 | 19,608 | 26,563 | 19,973 | 27,361 |
| Number of shares | Sept. 12 | 534,943 | 735,342 | 574,818 | 760,597 |
| Dollar value | Sept. 12 | $23,598,189 | $31,196,337 | $26,929,242 | $35,564,700 |
| Odd-lot purchases by dealers (customers' sales)— | | | | | |
| Number of orders—Customers' total sales | Sept. 12 | 15,954 | 20,429 | 18,799 | 22,451 |
| Customers' short sales | Sept. 12 | 219 | 349 | 129 | 252 |
| Customers' other sales | Sept. 12 | 15,735 | 20,080 | 18,670 | 22,199 |
| Number of shares—Total sales | Sept. 12 | 458,745 | 618,581 | 515,441 | 637,791 |
| Customers' short sales | Sept. 12 | 8,044 | 12,205 | 4,343 | 8,926 |
| Customers' other sales | Sept. 12 | 450,701 | 606,376 | 511,098 | 628,865 |
| Dollar value | Sept. 12 | $17,288,749 | $23,640,404 | $20,665,963 | $26,648,150 |
| Round-lot sales by dealers— | | | | | |
| Number of shares—Total sales | Sept. 12 | 139,630 | 187,200 | 157,770 | 213,390 |
| Short sales | Sept. 12 | ------ | ------ | ------ | ------ |
| Other sales | Sept. 12 | 139,630 | 187,200 | 157,770 | 213,390 |
| Round-lot purchases by dealers— | | | | | |
| Number of shares | Sept. 12 | 209,030 | 288,950 | 215,880 | 305,890 |
| **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 | Sept. 5 | 349,460 | 254,110 | 229,500 | 139,470 |
| Other sales | Sept. 5 | 6,481,710 | 6,208,960 | 5,423,840 | 4,410,560 |
| Total sales | Sept. 5 | 6,831,170 | 6,463,070 | 5,653,340 | 4,550,030 |
| **WHOLESALE PRICES, NEW SERIES — U. S. DEPT. OF LABOR — (1947-49 = 100):** | | | | | |
| Commodity Group— | | | | | |
| All commodities | Sept. 22 | 110.7 | 110.8 | 110.7 | 111.1 |
| Farm products | Sept. 22 | 98.1 | *97.8 | 97.5 | 105.2 |
| Processed foods | Sept. 22 | 105.0 | 105.6 | 105.1 | 109.8 |
| Meats | Sept. 22 | 92.4 | 94.7 | 95.1 | 112.5 |
| All commodities other than farm and foods | Sept. 22 | 114.6 | 114.6 | 114.7 | 112.7 |

*Revised figure. ¶Includes 723,000 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 July | 109,285 | 104,152 | 78,368 |
| Stocks of aluminum (short tons) end of July | 17,848 | 17,810 | 15,759 |
| **AMERICAN GAS ASSOCIATION**—For month of July: | | | |
| Total gas (M therms) | 3,505,917 | 3,787,659 | 3,216,000 |
| Natural gas sales (M therms) | 3,320,467 | 3,561,013 | 3,021,200 |
| Manufactured gas sales (M therms) | 55,109 | 65,770 | 77,200 |
| Mixed gas sales (M therms) | 130,341 | 160,876 | 117,600 |
| **AMERICAN IRON AND STEEL INSTITUTE:** | | | |
| Steel ingots and steel for castings produced (net tons)—Month of August | 9,401,000 | *9,275,673 | 8,499,725 |
| Shipments of steel products, including alloy and stainless (net tons)—Month of July | 6,582,513 | 6,950,059 | 1,413,672 |
| **AMERICAN ZINC INSTITUTE, INC.**—Month of August: | | | |
| Slab zinc smelter output, all grades (tons of 2,000 pounds) | 83,241 | 80,825 | 78,167 |
| Shipments (tons of 2,000 pounds) | 69,250 | 74,204 | 78,435 |
| Stocks at end of period (tons) | 117,897 | 103,906 | 96,651 |
| Unfilled orders at end of period (tons) | 32,988 | 32,327 | 44,522 |
| **BUSINESS FAILURES—DUN & BRADSTREET, INC.**—Month of August: | | | |
| Manufacturing number | 148 | 164 | 109 |
| Wholesale number | 71 | 73 | 60 |
| Retail number | 340 | 380 | 316 |
| Construction number | 92 | 64 | 58 |
| Commercial service number | 49 | 43 | 51 |
| Total number | 700 | 724 | 594 |
| Manufacturing liabilities | $10,267,000 | $17,139,000 | $5,056,000 |
| Wholesale liabilities | 3,042,000 | *7,410,000 | 2,386,000 |
| Retail liabilities | 10,275,000 | 11,282,000 | 5,255,000 |
| Construction liabilities | 3,868,000 | 2,789,000 | 1,816,000 |
| Commercial service liabilities | 1,077,000 | 1,210,000 | 1,809,000 |
| Total liabilities | $28,529,000 | *$39,830,000 | $16,322,000 |
| **COAL OUTPUT (BUREAU OF MINES)**—Month of August: | | | |
| Bituminous coal and lignite (net tons) | 40,275,000 | 34,870,000 | *34,171,000 |
| Pennsylvania anthracite (net tons) | 2,353,000 | *2,475,000 | 2,704,000 |
| Beehive coke (net tons) | 429,500 | *418,800 | 220,500 |
| **COKE (BUREAU OF MINES)**—Month of July: | | | |
| Production (net tons) | 6,759,085 | *6,613,614 | 2,370,600 |
| Oven coke (net tons) | 6,340,286 | *6,127,421 | 2,311,300 |
| Beehive coke (net tons) | 418,799 | *486,193 | 59,300 |
| Oven coke stocks at end of month (net tons) | 2,220,692 | *2,129,468 | 3,297,471 |
| **COMMERCIAL PAPER OUTSTANDING—FEDERAL RESERVE BANK OF NEW YORK—** As of August 31 (000's omitted) | $451,000 | $429,000 | $550,000 |
| **CONSUMER PURCHASES OF COMMODITIES—DUN & BRADSTREET, INC.—** (1947-1949=100)—Month of August | 131.2 | 139.9 | 125.3 |
| **COPPER INSTITUTE**—For month of August: | | | |
| Copper production in U. S. A.— | | | |
| Crude (tons of 2,000 pounds) | 82,705 | *88,063 | 79,368 |
| Refined (tons of 2,000 pounds) | 106,749 | 112,570 | 95,366 |
| Deliveries to fabricators— | | | |
| In U. S. A. (tons of 2,000 pounds) | 106,985 | *104,481 | 127,910 |
| Refined copper stock at end of period (tons of 2,000 pounds) | 78,825 | 77,100 | 83,771 |
| **COTTON GINNING (DEPT. OF COMMERCE)—** As of Sept. 16 | 2,947,554 | ------ | 3,405,754 |
| **DEPARTMENT STORE SALES—SECOND FEDERAL RESERVE DISTRICT, FEDERAL RESERVE BANK OF N. Y. — 1947-1949 Average=100**—Month of August: | | | |
| Sales (average monthly), unadjusted | 77 | 76 | 80 |
| Sales (average daily), unadjusted | 75 | 75 | 78 |
| Sales (average daily), seasonally adjusted | 99 | *104 | 103 |
| Stocks, unadjusted | 118 | 107 | *109 |
| Stocks, seasonally adjusted | 122 | *121 | *113 |
| **EDISON ELECTRIC INSTITUTE:** | | | |
| Kilowatt-hour sales to ultimate consumers—Month of June (000's omitted) | 31,358,370 | 30,991,366 | 26,855,991 |
| Revenue from ultimate customers—month of June | $555,797,900 | $549,247,000 | $488,551,100 |
| Number of ultimate customers at June | 49,024,806 | 48,856,021 | 47,621,631 |
| **FABRICATED STRUCTURAL STEEL (AMERICAN INSTITUTE OF STEEL CONSTRUCTION)**—Month of August: | | | |
| Contracts closed (tonnage)—estimated | 243,525 | *220,669 | 252,849 |
| Shipments (tonnage)—estimated | 250,507 | *230,304 | 226,277 |
| **FREIGHT CAR OUTPUT—DOMESTIC (AMERICAN RAILWAY CAR INSTITUTE**—Month of August: | | | |
| Deliveries (number of cars) | 5,557 | 6,370 | 4,537 |
| Backlog of orders at end of month (number of cars) | 45,735 | 47,423 | 95,761 |
| **INTERSTATE COMMERCE COMMISSION —** Index of Railway Employment at middle of August (1935-39 average=100) | 118.5 | 118.9 | 117.2 |
| **NEW YORK STOCK EXCHANGE**—As of Aug. 31 (000's omitted): | | | |
| Member firms carrying margin accounts— | | | |
| Total of customers' net debit balances | $1,682,105 | $1,663,839 | $1,338,244 |
| Credit extended to customers | 27,022 | 28,648 | 48,188 |
| Cash on hand and in banks in U. S. | 285,220 | 286,289 | 342,050 |
| Total of customers' free credit balances | 640,535 | 649,685 | 674,753 |
| Market value of listed shares | 110,750,141 | 115,885,633 | 114,506,240 |
| Market value of listed bonds | 100,009,822 | 100,279,485 | 100,536,928 |
| Member borrowings on U. S. Govt. issues | 129,436 | 141,345 | 103,577 |
| Member borrowings on other collateral | 1,203,892 | 1,193,868 | 959,518 |
| **REAL ESTATE FINANCING IN NONFARM AREAS OF U. S. — HOME LOAN BANK BOARD**—Month of July (000's omitted): | | | |
| Savings and loan associations | $699,037 | $681,920 | $585,995 |
| Insurance companies | 131,587 | 130,914 | 113,440 |
| Bank and trust companies | 323,320 | 325,012 | 317,159 |
| Mutual savings banks | 127,282 | 120,447 | 104,994 |
| Individuals | 256,713 | 248,152 | 245,535 |
| Miscellaneous lending institutions | 259,821 | 262,814 | 223,196 |
| Total | $1,797,760 | $1,769,259 | $1,590,319 |
| **UNITED STATES EXPORTS AND IMPORTS — BUREAU OF CENSUS** — Month of July (000's omitted): | | | |
| Exports | $1,346,300 | *$1,374,000 | $1,027,000 |
| Imports | 907,900 | *933,763 | 839,084 |

Continued from page 13

# The Government and Municipal Bond Market

securities as liquid assets and against their Federal income tax liabilities and any other need for funds that they may expect in the future. For example, a corporation may sell a bond issue, acquire the funds ahead of the expenditure for plant, and invest the funds temporarily in government securities. Corporations are large purchasers during the second half of the calendar year, when their income tax liabilities increase more rapidly than their actual tax payments. During the first half of the calendar year, they are net sellers.

As far as individuals are concerned, the bulk of their holdings are in the form of savings bonds. They are also holders of long-term marketable issues. To the extent that the Treasury can sell securities to individuals, it can reduce the amount that it will have to sell to commercial banks in financing the current deficit. Total holdings by individuals have increased somewhat during the past six months, but these purchases are only a fraction of the Treasury deficit.

### Commercial Banks as Government Bondholders

I have left consideration of commercial banks until last, because I want to consider them in connection with Federal Reserve policy. Holdings by commercial banks are predominantly in short-term securities. Commercial banks hold these securities primarily for liquidity purposes. A commercial bank, when its liquidity drops below the amount it wants to keep, may try to raise that liquidity either by calling loans or by selling longer-term securities and investing the proceeds in short-term governments. If commercial banks as a whole have a small amount of short-term securities, they may become more restrictive in their lending policies and in their policies as to investment in long-term securities.

Commercial banks need liquidity for two primary reasons. First, they need liquidity to take care of deposit shifts from one bank to another. In our complex economy funds are continually shifting among depositors and go from one bank to another and from one part of the country to another. Second, commercial banks need liquidity in order to meet the customer demand for loans.

If there were only one commercial bank in the country, that one bank would have no particular need for liquidity, because payments by one depositor to another would have no effect on the total funds at the disposal of that particular bank. There are 14,000 banks, however, and some banks are always losing deposits or making loans, with the proceeds paid out to some other bank. The individual banker, consequently, has to keep a fairly large amount of short-term securities that he can sell quickly at a minimum loss. The amount that any particular bank keeps depends upon the bank's type of deposits and the amount of loans that the bank expects to make.

As you know the drains of funds on commercial banks are usually reflected in reserve balances. A bank that loses deposits has to transfer reserve balances to a bank that gains deposits. When a bank loses deposits, of course, its reserve requirement declines by only a fraction of the loss in deposits. Since most banks carry very limited amounts of excess reserves, a bank that is losing deposits generally finds that its reserve balance has declined below its reserve requirement and generally replenishes its reserve balance by selling short-term government securities. Of course, when a bank gains deposits, its reserve balance increases by more than the increase in its reserve requirement, and it may invest these excess reserves in short-term government securities. These transfers of ownership of short-term government securities take place in what is known as the money market. This trading is usually done over the telephone, largely through dealers in government securities.

### The Influence of the Money Market

In the case that we have considered up to this point, what one bank gains another bank loses. In addition to this continual flow of funds among individual banks, there are various other factors that result in gains and loses of funds to all banks as a whole. We are particularly interested in these general factors in trying to forecast what is to happen in the money market in the future. One of these factors is the change in Treasury deposits at the Federal Reserve Bank. A second is changes in the amount of money in circulation. A third is changes in gold stock, and a fourth is changes in float.

When Treasury deposits at the Federal Reserve Banks increase, the Treasury has withdrawn more funds from commercial banks than it has paid out to them. At such a time we find all banks pretty much in the same situation. We find many banks in the market to sell short-term securities and only a few banks in the market to buy them. Contrariwise, when the Treasury is paying out funds on balance by reducing its deposits at the Reserve Banks, commercial banks may use the funds to purchase short-term government securities. This, again, is a situation that affects commercial banks generally.

The second factor that affects commercial banks as a whole is the change in the amount of currency in circulation. When a commercial bank pays out currency to a depositor, it reduces its vault cash, which it will then generally replenish by obtaining currency from its Reserve Bank. When it obtains currency from the Reserve Bank, it pays for it by reducing its own reserve balance. In other words in effect it buys the currency from the Federal Reserve Bank by reducing its deposit account with the Federal Reserve. When there is a decrease in money in circulation, banks will generally deposit the excess vault cash with their Federal Reserve Bank, thereby increasing their reserve balances. The third important factor is changes in the gold stock. An increase in gold stock adds to the reserves of commercial banks as a whole, and a decrease reduces their reserves.

The final item of importance in the money market is float, which is uncollected items. When a check is sent through a Federal Reserve Bank for collection, the bank that deposits the check receives credit according to time schedule, but the bank on which the check is drawn is not charged until the check is actually collected by the Federal Reserve Bank. When there is a delay in the collection of checks, which often occurs when there is bad weather, uncollected items, or float, will increase, and reserve balances will rise. For example, when there is a bad snowstorm, which is a little hard to imagine at this time of the year, you will find that the mails are so delayed that float will increase rather sharply, and the money market as a whole will be much easier than would have been the case if we had not had the snowstorm.

Other factors that will affect the money market are usually of fairly minor importance. All of these factors are continually interacting. At any given time the net of all of these factors may be either to increase or decrease reserve balances. In addition, of course, member banks need to provide for increases in their reserve requirements, resulting from increases in their deposits.

When banks find that their reserve balances are less than their reserve requirements, they may sell short-term government securities to other investors or to the Reserve Banks, or they may borrow from the Reserve Banks. The important point here is that banks are forced to borrow from the Federal Reserve unless either nonbank investors or the Federal Reserve Banks purchase government securities in the open market. As you know, if banks borrow for a long period, they are likely to take steps to reduce their borrowing, or they may get a little suggestion from their Federal Reserve Bank to reduce their borrowing. In this event commercial banks are likely to sell securities or to curtail loans. First, they are likely to sell short-term securities. If a bank's holdings of short-term securities or secondary reserves are below the minimum that it feels necessary to hold in view of the situation of that particular bank, it may sell other securities or reduce loans. In periods of inflation, if this kind of pressure can be put on commercial banks and if the increase in total bank credit can be stopped, the inflation will have to be financed from existing deposits.

Commercial banks, of course, will obtain reserves ultimately either by selling government securities to the Federal Reserve or by borrowing from the Federal Reserve. The condition of the money market and the short-term government security market will reflect essentially whether the reserve balances are finally obtained by one method or the other. When banks are short of reserves, Federal Reserve policy is generally reflected as a practical matter in whether the Federal Reserve purchases government securities or whether the Federal Reserve forces member banks to borrow. If the Federal Reserve purchases government securities freely, commercial banks can obtain reserves easily, and money rates will generally decline; the reverse is true when the Federal Reserve refuses to purchase government securities and thereby forces member banks to borrow.

### The Influence of the Federal Reserve

In trying to interpret what is likely to happen in the government security market, it is important to watch, over a period of weeks, the reaction of the Federal Reserve to the problem that is presented to it day by day by the various factors that influence excess reserves. If, over a period of several weeks, the Federal Reserve offsets these factors more or less exactly, they are probably following a neutral policy with respect to bank credit. In general, you will then find stability in the money market and probably in the short-term government security market as well.

If the Federal Reserve more than offsets losses from these factors, borrowings will decline, and rates on short-term government securities also will decline. If the Federal Reserve offsets losses only in part, borrowings will rise, and rates on short-term government securities will also rise. Of course, we also have to take into account other factors such as large purchases or sales by corporations. Altogether they give us the background behind changes in rates on short-term government securities.

During the first four months of this year, the Federal Reserve followed a generally restrictive policy. Member bank borrowings averaged about $1.3 billion, the rate on Treasury bills advanced from 2% to 2¼%, and the bond market declined steadily and sharply. At that time many investors doubted whether the Federal Reserve would supply the reserves necessary to provide for financing both the Treasury deficit and the private expansion of credit, and they feared that money rates would rise further and that the bond market would decline further.

The Federal Reserve then started buying bills at an increasing rate, the Treasury ran a substantial overdraft, and the Federal Reserve reduced the reserve requirement percentages. Borrowings at the Federal Reserve declined sharply, and money rates declined sharply. Since the overdraft of the Treasury was only temporary, and since later on the Treasury sold $6 billion of securities, which increased reserve requirements, borrowings and money rates have since risen, but they have not gotten back to the former peaks.

### Open-Market Operations

From this discussion I think that it should be clear that the open-market operations of the Federal Reserve are one of the most important factors in the government security market. Under boom conditions we can generally expect government securities to be in supply in the market from the investors who are financing the boom. If the Federal Reserve is following a restrictive policy, it may then purchase only part of the offerings, yields will rise as holders endeavor to sell securities, and potential sellers who are unable to find a buyer except at a considerable price decline may then withdraw from the market. Since a boom can generally continue only if it can be financed by an expansion of credit, this probably at some stage will bring the boom to an end. During a business recession government securities usually will be in demand in the market, because investors will have a reduced private demand for their funds. During such a period the Treasury will probably have a cash deficit. If the Federal Reserve is following an easy money policy, it may then be a willing purchaser of governments, which puts funds in the hands of nonbank investors and puts reserves in the hands of commercial banks.

### Debt Management Problems

The final subject that I want to take up is the Treasury's debt-management policies. The Treasury is now faced with a substantial cash deficit and a substantial amount of refunding of maturing securities during the second half of this calendar year. The policy that the Treasury follows in managing its debt will have an important effect on the government security market. As a matter of general principle, during a business recession the Treasury should sell securities to commercial banks. This can be accomplished principally by selling short-term securities and medium-term securities, that is, securities maturing in about five years or less. These are the types of securities that commercial banks, as a whole, generally prefer, although such a preference may disappear during a prolonged depression.

During a boom period the Treasury should have a surplus, which it should use to bring about a decline in the amount of government securities held by commercial banks. At such times the Treasury should try to sell securities to nonbank investors.

Right now we have a deficit in a period where business seems to be more or less in balance. In that sort of situation, the program of the Treasury is to sell its securities to nonbank investors who will hold the securities, particularly to individuals. This includes the sale of savings bonds to individuals. It also includes the sale of short-term securities to corporations. It includes the sale of long-term securities to mutual savings banks and life insurance companies. The main purpose, of course, is to sell as little as possible to commercial banks.

As near as we can see at this time, the possibilities of selling a large amount of securities to nonbank investors who will hold them are not very great. The Treasury could obtain, at least temporarily, a few billion dollars from corporations against their accruing tax liabilities. The Treasury could, perhaps, obtain a small amount from nonbank financial institutions. If the long-term market is reasonably stable, such institutions might be interested in another offering of long-term bonds, such as was made to them last spring, provided the size of the issue is not too large. When possible purchases from these sources and from individuals are totaled, it usually will appear that the Treasury will need to call upon commercial banks for a considerable part of the financing, which is what has happened to date.

The refunding policies of the Treasury should not be essentially different from the policies already mentioned with respect to cash financing. During a deflation the Treasury should try to refund its maturing securities into types that will be purchased by commercial banks. During a boom whatever securities have to be refunded should be sold as far as possible to investors other than commercial banks. When conditions are between these two extremes, you have a more difficult situation, and a mixed policy is required, depending upon both the level and the trend of business.

### Summary

In conclusion, I would like to try to bring all of this together and to indicate the factors that I think are important for you to watch in studying the government security market. With respect to the long-term market, perhaps the most important point is to compare the available supply of private loans and securities with the funds flowing to nonbank institutions, in order to determine whether these institutions are likely to be net buyers or net sellers of long-term Treasury bonds. A growing factor in this market is pension funds and State and local retirement funds. Their policies also have to be taken into account.

With respect to the short-term government market, the most important factors are the operations of the Federal Reserve and of the nonfinancial corporations. We have seen how various factors, such as money in circulation, are continually operating in the money market to increase or decrease bank reserves. The condition of the money market reflects essentially whether the Federal Reserve decides to supply reserves by purchasing government securities or by forcing banks to borrow. Under boom conditions we can generally expect government securities to be in supply in the market, the Federal Reserve to purchase only part of the offerings, and yields to rise. During a business recession government securities will be in demand in the market, and the Federal Reserve may be a willing purchaser at rising prices.

Finally, Treasury debt-management policy should be adjusted during a recession to selling the types of securities that commercial banks like and during a boom to retiring securities held by commercial banks. The present situation, which is characterized by a budget deficit at a time of high business activity, is a particularly difficult time for both the Treasury and the Federal Reserve.

In short, I believe that the principal factors to watch with respect to the government security market are the flow of funds, Federal Reserve policy, and Treasury debt-management policy. I have also tried to point out that there are different types of government securities that are owned by different types of investors. I am sure that you will find the study of the government security market to be of help in analyzing the markets for other interest-bearing securities as well.

*Continued from page 5*

# The State of Trade and Industry

the books, seasonal factors and opinions of steel people themselves, this prediction still looks good, it states.

Operations this week are scheduled at close to 95.0% of rated capacity. Inventory correction, now at its peak, has been going on for some time. It should be pretty well completed in the next two months.

Prime example of inventory correction is the auto industry, which holds almost unbelievably overloaded stocks—especially when measured against cut back production. Current inventories of 70 to 90 working days are about double normal, this trade journal asserts.

Of course these inflated inventories are not entirely accidental, nor do they reflect bad guesses. Competitive drive to reach the customer first has resulted in a big production race. Result: It has seemed wiser to have too much scarce steel at some extra cost than to lose markets to competitors for lack of raw materials, declares "The Iron Age."

First reports on outlook for steel business early next year are optimistic. Order books of a few mills have been opened on one or more products with initial response from consumers better than had been expected, it reports.

Scrap prices spiraled downward for the ninth consecutive week. Some sources in the trade were near panic, as holders of "distressed" material threatened to cause the bottom to drop out of the market. "The Iron Age" steel scrap composite price fell $3.83 a ton to $31.50 per gross ton, being the sharpest drop in scrap prices in more than four years, when the composite fell $5 a ton on Apr. 7, 1949.

Car output will rise slightly this week as certain Chrysler Corp. makes work their way out of model changeover.

Industry production fell 8% last week due mainly to model changeover troubles and parts shortages which harassed Chrysler, "Ward's Automotive Reports" states.

September production is expected to decline about 9% from August, according to this trade agency, but it looks for total third quarter production to be about 1,594,000— a figure surpassed by only one other third quarter: the 1,898,783 in July-September, 1951. In the second quarter this year the total was 1,735,811 cars.

The third quarter total would have been higher except for setbacks at Chrysler and among the independents and the General Motors fire which cost the loss of 50,000 G.M. cars. Ward's anticipates 120,000 G.M. cars will be lost—due to this fire—before the year's end.

The government's consumer price index showed a rise in living costs of 0.3%, establishing a further high record in the month ended Aug. 15 The index moved up to 115.0% of the 1947-49 average. The level a year earlier was 114.3%. Increased costs of housing, transportation, food and medical care were chiefly responsible, it was reported, for the latest rise. Final lifting of Federal rent controls on July 31 and the New York City subway fare boost were factors.

On the basis of the mid-August index, wage scales of 1,300,000 railroad workers will go up three cents an hour. Under their contracts with the roads, pay rates are changed every three months to match fluctuations in living costs. Officials said the wage boosts will cost the railroads $90,000,000 yearly.

## Steel Output Scheduled This Week at Slightly Lower Rate

Steel production in the week ended Sept. 26 was the highest since the first week of this month but it probably won't keep the month from being the lowest one production-wise since the steelworkers' strike a year ago last summer, states "Steel," the weekly magazine of metalworking, the current week.

September output of steel for ingots and castings will total approximately 8,800,000 net tons. Since August 1952 the only other month in which steel output has been below 9,000,000 tons was February of this year, when production totaled 8,900,000 tons, it adds.

Nevertheless, steel production in the first nine months of this year will be 33% greater than output in 1952's comparable period which was depressed by the steelworkers' strike. This greater production is one of the reasons steel supply is overtaking demand. Not only has output been at a high rate of capacity all of this year but the capacity is at an all-time high, continues this trade journal.

Upturn in steel production in the week ended Sept. 26 stems largely from settlement of a strike at the Lackawanna, N. Y., plant of Bethlehem Steel Co., it points out.

The adjustment in steel demand has put some products in plentiful supply and is carrying some others in that direction. These include some products that a few months ago were the tightest in supply, the above trade journal observes.

**The American Iron and Steel Institute announced that the operating rate of steel companies having 93% of the steel-making capacity for the entire industry will be at an average of 94.9% of capacity for the week beginning Sept. 28, 1953, equivalent to 2,139,000 tons of ingots and steel for castings as against 95.1% (revised), or 2,144,000 tons a week ago. For the like week a month ago the rate was 90.5% and production 2,040,000 tons. A year ago the weekly production was placed at 2,195,000 tons and the operating rate was 105.7% of capacity. The percentage figures for the current year are based upon the capacity as of Jan. 1, 1953, the rate this year being higher than last year.**

## Car Loadings Rise 15.9% Above Preceding Holiday Week

Loadings of revenue freight for the week ended Sept. 19, 1953, increased 113,330 cars, 15.9% above the preceding holiday week, according to the Association of American Railroads.

Loadings totaled 823,884 cars, a decrease of 49,712 cars, or 5.7% below the corresponding 1952 week, and a decrease of 39,806 cars, or 4.5% below the corresponding 1951 week.

## Electric Output Declines Moderately

The amount of electric energy distributed by the electric light and power industry for the week ended Saturday, Sept. 26, 1953, was estimated at 8,353,541,000 kwh., according to the Edison Electric Institute.

The current figure represents a decline of 41,166,000 kwh. below that of the preceding week, but an increase of 728,794,000 kwh., or 9.6% over the comparable 1952 week and 1,251,749,000 kwh. over the like week in 1951.

## U. S. Auto Output Drops in Latest Week Due in Part to Model Changeover and Parts Shortages

Automotive output for the latest week fell 8% below the preceding week's volume, due mainly to model changeover troubles and parts shortages which harassed Chrysler, "Ward's Automotive Reports" stated.

The industry turned out 106,819 cars last week, compared with 115,454 in the previous week. A year ago the weekly production was 103,925 cars.

United States truck production last week totaled 22,675, compared with 23,195 the previous week. A year ago truck output was 28,699 units.

Canadian companies made 7,528 cars last week, compared with 7,083 in the previous week and 6,220 in the like 1952 week. Truck production amounted to 1,261 units last week, against 1,180 the week before and 2,384 in the year earlier period.

## Business Failures Decline Moderately

Commercial and industrial failures declined to 152 in the week ended Sept. 24 from 182 in the preceding week, according to Dun and Bradstreet, Inc. While casualties dipped only slightly below the 156 which occurred a year ago and the 1951 toll of 154, they were down sharply 42%, from the prewar level of 264 in 1939.

Failures with liabilities of $5,000 or more decreased mildly to 136 from 157 last week, but remained above the 119 in the similar week of 1952. On the other hand, small casualties, those involving liabilities under $5,000, fell to 16 from 25 in the previous week and were less than one-half as numerous as a year ago when 37 small concerns succumbed. Nine of the failing concerns had liabilities in excess of $100,000, compared with 14 last week.

## Wholesale Food Price Index Eased in Latest Week

Following the sharp advance of a week ago, the Dun & Bradstreet wholesale food price index edged slightly lower last week, bringing the figure for Sept. 22 to $6.71, from last week's $6.72. The current number compares with $6.45 on the corresponding date a year ago, or a rise of 4.0%.

The index represents the sum total of the price per pound of 31 foods in general use and its chief function is to show the general trend of food prices at the wholesale level.

## Wholesale Commodity Price Index Shows Moderately Lower Trend

The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., moved steadily downward in the past week to close at 277.35 on Sept. 22. This was a moderate drop from 280.89 a week earlier, and well below the 290.83 on the corresponding date a year ago.

Gains were irregular with prices fluctuating widely during the week. Wheat drifted lower under considerable selling pressure prompted by uncertainty regarding the Administration farm program.

Total supplies of wheat on Sept. 1 for milling, export or carryover were reported at about 1,400,000,000 bushels, compared with 1,225,000,000 a year ago, and 1,086,000,000 two years ago. Corn prices strengthened, aided by comparatively light country offerings and high premiums in the cash market. Rye and oats prices were relatively firm despite liberal receipts of Canadian grain. Soybean prices declined moderately reflecting larger country offerings of the new crop.

Activity on the Chicago Board of Trade increased sharply the week before. Purchases of all grain and soybean futures averaged about 56,700,000 bushels per day, against 35,300,000 the week before, and 44,500,000 a year ago.

Cattle prices were easier as receipts for the week rose to the largest in seven years. Hogs were fairly steady but lambs dclined sharply on expanded marketings.

Spot cotton prices trended moderately downward under increased hedging pressure, slackened mill buying and continued slowness in cotton textiles.

**Other bearish factors included the large prospective crop, limited export demand, and uncertainty over the volume of cotton which will move into the loan.**

## Trade Volume Shows Marked Increase Above Preceding Week and Year Ago

Retail sales in most parts of the nation for the period ended on Wednesday of last week reflected marked increases over both the previous week and the previous year. Cool weather spurred purchases of Fall and Winter clothing. The lower temperatures also stimulated appetites and resulted in an upturn in furniture buying. The observance of the religious holidays had little effect on consumer spending.

The total dollar volume of retail trade in the week was estimated by Dun & Bradstreet, Inc., to be from 2 to 6% above the level of a year ago. Regional estimates varied from the comparable 1952 levels by the following percentages: New England and Pacific Coast +2 to +6; East and South +3 to +7; Midwest +4 to +8; Southwest and Northwest +1 to +5.

Apparel sales increased perceptibly in the week. In greatest demand were back-to-school and back-to-work clothing. Consumers continued to express preference for casual clothes although some increase in more formal apparel volume was noted. Accessories sales were only slightly above a year ago. There was a seasonal increase in spending for fur pieces. Shoe volume was moderately above a year ago and substantially above the preceding week.

**Home furnishing sales reflected a moderate increase above a year ago and were higher than in the preceding week.**

Upholstered furniture and bedding were in most frequent demand. Small appliance volume continued to be noticeably higher than in the previous year. Purchases of television sets varied regionally. Marked increases in video sales were noted in Washington, Seattle and Portland. The forthcoming telecasting of major sporting events was listed as one of the reasons for the increased volume. Automobile volume slackened seasonally.

Food purchases were moderately above the preceding week and slightly above the year-ago level.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index, for the week ended Sept. 19, 1953, increased 6% from the level of the preceding week. In the previous week. *Sept. 12, 1953, a decrease of 11% was reported from that of the similar week of 1952. For the four weeks ended Sept. 19, 1953, a decline of 3% was reported. For the period Jan. 1 to Sept. 19, 1953, department stores sales registered an increase of 3% above 1952.

**Retail trade in New York last week, stimulated by cooler weather and some large promotion sales showed a gain of about 10% over the volume of the similar period last year.**

According to the Federal Reserve Board's index department store sales in New York City for the weekly period ended Sept. 19, 1953, advanced 10% from the like period of last year. In the preceding week, *Sept. 12, 1953, a decrease of 12% (revised) was reported from that of the similar week of 1952, while for the four weeks ended Sept. 19, 1953, a decrease of 7% was reported. For the period Jan. 1 to Sept. 19, 1953, no change was registered from that of 1952.

***Labor Day in 1952 fell in the week ending Sept. 6, whereas this year it fell one week later. Therefore, the week ending Sept. 5, 1953, had one more trading day than the corresponding week last year, while the week ending Sept. 12, 1953, had one less trading day than the week ending Sept. 13, last year.**

# Securities Now in Registration

★ INDICATES ADDITIONS SINCE PREVIOUS ISSUE
• ITEMS REVISED

**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.

★ **Allied Credit Card, Inc., Spokane, Wash.**
Sept. 24 (letter of notification) 2,500,000 shares of common stock. **Price**—10 cents per share. **Proceeds** — For working capital. **Office**—621 Columbia Bldg., Spokane 4, Wash. **Underwriter**—None.

• **American Independence Life Insurance Co., Houston, Texas.**
July 14 filed 50,000 shares of preferred stock (no par) and 50,000 shares of common stock (no par) to be offered to commissioned officers of the uniformed services of the United States in units of five shares of each class of stock. **Price**—$495 per unit. Payment may be made in 36 equal monthly instalments of $13.75 each. **Proceeds** — For general corporate purposes. **Underwriter**—None. Statement effective Sept. 16.

**American-Israeli Cattle Corp., Beverly Hills, Cal.**
Aug. 24 filed 100,000 shares of class A common stock. **Price**—At par ($10 per share). **Proceeds**—To establish and develop a cattle industry in Israel. **Underwriter**—None.

★ **American Mining & Smelting, Inc., Spearfish, S. D.**
Sept. 22 (letter of notification) 190,000 shares of common stock (par 10 cents). **Price**—$1 per share. **Proceeds**—To purchase machinery and for exploration expenses. **Underwriter**—None.

★ **Anacon Lead Mines, Ltd., Toronto, Canada**
Sept. 28 filed 700,000 shares of common stock (par 20 cents—Canadian funds) to be offered for subscription by common stockholders at the rate of one new share for each five shares held. **Price**—To be supplied by amendment. **Proceeds**—To develop mining properties. **Underwriter**—None.

• **Appell Oil & Gas Corp., Alice, Tex. (10/7)**
Sept. 16 (letter of notification) 300,000 shares of common stock (par 10 cents). **Price**—$1 per share. **Proceeds**—For drilling costs. **Office**—Appell Bldg., Alice, Tex. **Underwriter**—R. V. Klein Co., New York.

**Applied Science Corp. of Princeton**
May 21 filed $750,000 of 6% guaranteed sinking fund 10-year debenture notes due April 30, 1963, of this company and 75,000 shares of common stock (par one cent) of Bradco, Inc., to be offered in units of $100 of notes and 10 shares of stock. **Price**—$105 per unit. **Proceeds**—For acquisition of stock of two companies, who will borrow the remainder to repay bank loans and for working capital. **Underwriter** — C. K. Pistell & Co., Inc., New York. **Offering**—Temporarily deferred.

**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**—Postponed.

★ **Astor 3-D Films, Inc., Phoenix, Ariz.**
Sept. 18 (letter of notification) 100,000 shares of common stock. **Price**—At par ($1 per share). **Proceeds**—For equipment. **Office**—1018 Title & Trust Bldg., Phoenix, Ariz. **Underwriter**—None.

★ **Beneficial Loan Corp.**
Sept. 29 filed 355,976 shares of common stock (par $10) to be offered to common stockholders on the basis of one new share for each 10 shares held on or about Oct. 7, with rights to expire on Oct. 23. **Price**—$24 per share. **Proceeds**—For general corporate purposes. **Underwriter**—None.

★ **Burton Picture Productions, Inc. (10/8)**
Sept. 24 (letter of notification) 300,000 shares of common stock (par 10 cents). **Price**—$1 per share. **Proceeds**—For production of movies and TV stories. **Office**—246 Fifth Avenue, New York. **Underwriter** — Alexander Reid & Co., Newark, N. J.

**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 Central Airlines, Inc.**
Aug. 24 filed $600,000 of 7% convertible equipment trust certificates, series A, due Sept. 1, 1957, and 400,000 shares of common stock (par 50 cents). **Price**—100% of principal amount for certificates and 75 cents per share for stock. **Proceeds**—To acquire five Martinliners and the spare parts. **Office**—Burbank, Calif. **Underwriters**—Gearhart & Otis, Inc., New York; and McCoy & Willard, Boston, Mass.

★ **Camco Oil Corp.**
Sept. 18 (letter of notification) 60,000 shares of common stock (par $1). **Price**—At market. **Proceeds**—To selling stockholders. **Underwriter** — B. G. Phillips & Co., New York. No general offer planned.

• **Carolina Telephone & Telegraph Co.**
Aug. 17 filed 33,320 shares of capital stock to be offered for subscription by stockholders of record Sept. 16 in the ratio of one new share for each five shares held. **Price**—At par ($100 per share). **Proceeds**—To reduce short-term notes. **Underwriter**—None. **Offering**—Temporarily postponed.

**Carrier Corp., Syracuse,**
Sept. 16 filed (by amendment) 278,422 shares of common stock (par $10) being offered for subscription by common stockholders of record Sept. 22 on the basis of one new share for each four shares held; rights to expire on Oct. 7. **Price**—$31.75 per share. **Proceeds**—For expansion program. **Underwriters**—Harriman Ripley & Co., Inc. and Hemphill, Noyes & Co., both of New York.

★ **City Gas Co. of Phillipsburg, N. J.**
Sept. 28 (letter of notification) 240 shares of 5% cumulative preferred stock. **Price**—At par ($100 per share) and accrued dividends. **Proceeds**—To two selling stockholders. **Office**—57 Main Street Flemington, N. J. **Underwriter**—None.

**Cleveland Electric Illuminating Co.**
Sept. 23 filed 10,000 shares of preferred stock, $4.50 series, no par value, and 50,000 shares of common stock, no par value, to be offered for subscription by employees of the company and its subsidiary, Ceico Co., under an Employees' Thrift Plan.

★ **Courtesy Loan Corp., Hammond, Ind.**
Sept. 21 (letter of notification) $100,000 of 12-year 6% subordinated debenture bonds, series A, in denominations of $100 each (to be offered separately and in a package together with $20,000 in common stock, of which $8,000 is class A and $12,000 is class B). **Proceeds**—For working capital. **Office**—5324 Hohman Ave., Hammond, Ind. **Underwriter**—None.

★ **Deep Lake Gas & Oil Co.**
Sept. 24 (letter of notification) 300,000 shares of common stock (par 24 cents). **Price**—$1 per share. **Proceeds**—To develop leases. **Office** — Louisiana National Bank Bldg., Baton Rouge, La. **Underwriter**—None.

**Duquesne Light Co.**
Aug. 19 filed 100,000 shares of preferred stock (par $50). **Proceeds**—To reduce bank loans and for new construction. **Underwriters** — To be determined by competitive bidding. Probable bidders: The First Boston Corp.; Kidder, Peabody & Co., Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly); Kuhn, Loeb & Co. and Smith, Barney & Co. (jointly); Blyth & Co., Inc.; Lehman Brothers. **Bids**—Originally scheduled to be received up to 11 a.m. (EDT) on Sept. 17, but on Sept. 16 the company announced bids will be received within 30 days from that date, bidders to be advised at least three days in advance of new date.

• **Excelsior Insurance Co. of New York**
Aug. 26 (letter of notification) 30,000 shares of capital stock (par $6) being offered for subscription by stockholders of record Sept. 16 at rate of one new share for each four shares held; rights to expire Oct. 5. **Price**—$10 per share. **Proceeds** — For working capital. **Office**—Syracuse Savings Bank Bldg., Syracuse, N. Y. **Underwriter**—None.

**Fairway Foods, Inc., St. Paul, Minn.**
May 8 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.

**Florida Power Corp., St. Petersburg, Fla. (10/8)**
Sept. 11 filed 211,416 shares of common stock (par $7.50) to be offered for subscription by common stockholders at rate of one new share for each 10 shares held on or about Oct. 8; rights to expire on Oct. 26. **Price**—To be supplied by amendment. **Proceeds**—To repay bank loans and for new construction. **Underwriters**—Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane, both of New York.

★ **Flour City Ornamental Iron Co., Minneapolis, Minn.**
Sept. 23 (letter of notification) 60,000 shares of common stock. **Price**—At par ($5 per share). **Proceeds**—For working capital. **Underwriters** — Woodard-Elwood Co., Minneapolis, Minn. and Harold E. Wood & Co., St. Paul, Minn.

• **General Credit, Inc. (10/2)**
Aug. 24 filed 150,000 shares of participating preference stock (par $1) and 150,000 shares of common stock (par five cents), to be offered in units of one share of each class of stock. **Price**—$5 per unit. **Proceeds**—For work-



## NEW ISSUE CALENDAR

**October 2 (Friday)**
General Credit, Inc.________Preference & Common
(John R. Boland) $750,000
Johnson Industries, Inc.__________Class A Common
(J. P. Marto & Co.) $300,000
Southern New England Telephone Co.______Common
(Offering to stockholders—no underwriting) 400,000 shares

**October 5 (Monday)**
Miracle Hinge, Inc.__________Preferred & Common
(Walter Aronheim) $220,000
United States Air Conditioning Corp.____Common
(Mortimer B. Burnside & Co., Inc. and George F. Breen) 320,000 shares
Zirconium Corp. of America____________Common
(Gordon Meeks & Co.) $94,500

**October 6 (Tuesday)**
Mississippi Power Co.____________________Bonds
(Bids 11 a.m. EST) $4,000,000
Mountain States Power Co.________________Bonds
(Bids 10:30 a.m. CST) $8,000,000
Petrolane Gas Co., Inc.______Debentures & Common
(P. W. Brooks & Co., Inc.) $550,000

**October 7 (Wednesday)**
Appell Oil & Gas Corp.________________Common
(R. V. Klein Co.) $300,000
Iowa Electric Light & Power Co.________Common
(The First Boston Corp. and G. H. Walker & Co.) 230,000 shares
State Fire & Casualty Co.__________Class B Common
(Floyd D. Cerf, Jr. Co.) $300,000
Strategic Materials Corp.______________Common
(Hamlin & Lunt and Allen & Co.) 198,500 shares
Western Massachusetts Companies________Common
(Offering to stockholders—underwritten by The First Boston Corp. and White, Weld & Co.) 128,316 shares

**October 8 (Thursday)**
Baltimore & Ohio RR.____________Equip. Trust Ctfs.
(Bids noon EST) $1,500,000
Burton Picture Productions, Inc.__________Common
(Alexander Reid & Co.) $300,000
Florida Power Corp.____________________Common
(Offering to stockholders—underwritten by Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane) 211,416 shares
Rockland Light & Power Co.______________Common
(Offering to stockholders—underwritten by Merrill Lynch, Pierce, Fenner & Beane) 210,721 shares

**October 13 (Tuesday)**
Kansas Gas & Electric Co.______________Preferred
(Union Securities Corp.) $5,000,000
Nevada Natural Gas Pipe Line Co.____Pfd. & Com.
(The First California Co., Inc.) $1,031,250

**October 14 (Wednesday)**
Kansas Gas & Electric Co.__________________Bonds
(Bids noon EST) $10,000,000
Long Island Lighting Co.________________Common
(Offering to stockholders—underwritten by Blyth & Co., Inc.; The First Boston Corp.; and W. C. Langley & Co.) 685,648 shares
Rockland Light & Power Co.________________Bonds
(Bids to be invited) $8,000,000

**October 20 (Tuesday)**
American Fidelity & Casualty Co.________Preferred
(Geyer & Co.) $750,000
Anchor Post Products, Inc.________________Common
(Offering to stockholders) $247,148
Public Service Electric & Gas Co.__________Common
(Probably Morgan Stanley & Co.; Drexel & Co., and Glore, Forgan & Co.) 800,000 shares

**October 26 (Monday)**
United Gas Corp.____________________Debentures
(Bids noon EST) $25,000,000

**October 27 (Tuesday)**
Central Illinois Light Co.________________Common
(Offering to stockholders — underwritten by Union Securities Corp.) 100,000 shares
Public Service Electric & Gas Co.____________Bonds
(Bids may be invited) $30,000,000

**October 28 (Wednesday)**
Niagara Mohawk Power Corp.________________Bonds
(Bids to be invited) $40,000,000

**November 17 (Tuesday)**
Worcester County Electric Co.____________Preferred
(Bids 11 a.m. EST) $7,500,000

**November 24 (Tuesday)**
Government Employees Corp.__________Debentures
(Offering to stockholders, without underwriting) $500,000

**December 1 (Tuesday)**
Monongahela Power Co.____________________Bonds
(Bids to be invited) $10,000,000

ing capital. **Office**—Washington, D. C. **Underwriter**—John R. Boland, New York.

**General Hydrocarbons Corp.**
Aug. 12 filed $1,010,800 of 20-year debentures and 66,424 shares of common stock (par $1) to be offered in units of $350 principal amount of debentures and 23 shares of stock. **Price**—$359 per unit ($336 for the debentures and $1 per share for the stock). **Proceeds**—For general corporate purposes. **Business**—Oil and gas development. **Underwriter**—None. **Office**—Oklahoma City, Okla.

**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 Trailer Co., San Angelo, Tex.**
Sept. 18 (letter of notification) 540 shares of common stock (no par). **Price**—$100 per share. **Proceeds**—To cover cost of present financing. **Office** — South Oakes and Allen St., San Angelo, Tex. **Underwriter**—None.

★ **Hawaiian Electric Co., Ltd.**
Sept. 25 filed 100,000 shares of common stock to be offered for subscription by common stockholders of record Oct. 5 in ratio of one new share for each 5½ shares held. **Price**—At par ($20 per share). **Proceeds**—For plant expansion. **Underwriter**—None.

**Inland Western Loan & Finance Corp., Phoenix, Ariz.**
July 2 filed 2,500,000 shares of class A non-voting common stock (par $1) to be offered to present and future holders of Special Participating Life Insurance Contracts issued by Commercial Life Insurance Co. of Phoenix. **Price**—$1.50 per share. **Proceeds** — To develop and expand company's loan and finance business. **Underwriter**—None. An additional 300,000 shares have been and are being offered for sale in Arizona at $1 per share to holders of Commercial's special participating contracts, the proceeds of which are to be used to activate the company in the loan and finance business.

**Ionics, Inc., Cambridge, Mass.**
June 30 filed 131,784 shares of common stock (par $1). **Price**—To be supplied by amendment (between $8 and $9 per share). **Proceeds**—To pay mortgage debt and for equipment. **Business** — Research and development and subsequent commercial exploitation in the field of ion exchange chemistry. **Underwriter**—Lee Higginson Corp., New York and Boston (Mass.). **Offering**—Date indefinite.

**Iowa Electric Light & Power Co. (10/7)**
Sept. 15 filed 230,000 shares of common stock (par $5). **Price**—To be supplied by amendment. **Proceeds** — For construction program. **Underwriters**—The First Boston Corp. and G. H. Walker & Co. of New York.

● **Johnson Industries, Inc. (10/2)**
Sept. 17 (letter of notification) 300,000 shares of class A common stock. **Price**—At par ($1 per share). **Proceeds**—To purchase machinery and equipment. **Office**—115 West Main St., Millbury, Mass. **Underwriter**—J. P. Marto & Co., Boston, Mass.

● **Kansas Gas & Electric Co. (10/13-14)**
Sept. 11 filed 50,000 shares of preferred stock (par $100). **Price**—To be supplied by amendment. **Proceeds**—To repay bank loans and for new construction. **Underwriters**—Union Securities Corp., New York. May be placed privately.

**Kansas Gas & Electric Co. (10/14)**
Sept. 11 filed $10,000,000 first mortgage bonds due Oct. 1, 1983. **Proceeds**—To reduce bank loans and for construction program. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co.; Blyth & Co., Inc. and The First Boston Corp. (jointly); Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Glore, Forgan & Co. and Goldman, Sachs & Co. (jointly); Union Securities Corp. and Stone & Webster Securities Corp. (jointly); Harriman Ripley & Co., Inc. **Bids**—Expected to be received up to noon (EST) on Oct. 14.

★ **Kansas Power & Light Co.**
Sept. 24 filed 50,000 shares of common stock (par $8.75) to be offered to certain of the company's employees (including officers) pursuant to a restricted stock option plan.

★ **Kay Jewelry Stores, Inc., Washington, D. C.**
Sept. 28 filed 672,746 shares of capital stock (par $1) to be offered in exchange for preferred and common stocks of 71 store corporations which operate 83 retail credit jewelry stores. **Underwriter**—None.

**Kenwell Oils & Mines Ltd., Toronto, Canada**
Aug. 20 filed 1,400,000 shares of common stock (par $1). **Price** — To be supplied by amendment. **Proceeds**—For working capital and general corporate purposes. **Underwriter**—To be supplied by amendment.

**Kropp Forge Co., Cicero, Ill.**
Sept. 15 (letter of notification) 12,890 shares of common stock (par 33⅓ cents). **Price**—At market (estimated at $3 per share). **Proceeds**—To Roy A. Kropp, President. **Underwriters**—L. D. Sherman & Co., of New York, and Sincere & Co., of Chicago, Ill.

**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.

**Long Island Lighting Co. (10/14)**
Sept. 24 filed 785,648 shares of common stock (par $10), of which 685,648 shares are to be offered for subscription by common stockholders during the period from Oct. 14 to Oct. 29 at the rate of one new share for each seven shares held; and the remaining 100,000 shares are to be offered to employees. **Price**—To be set by company Oct. 13. **Proceeds**—To repay bank loans. **Underwriters**—Blyth & Co., Inc., The First Boston Corp. and W. C. Langley & Co., all of New York.

★ **Lundberg-Carlson, Inc., Seattle, Wash.**
Sept. 21 (letter of notification) 1,000 shares of common stock. **Price** — At par ($100 per share). **Proceeds**—For working capital. **Office** — 603 Central Bldg., Seattle 4, Wash. **Underwriter**—None.

★ **Lunn Laminates, Inc.**
Sept. 23 (letter of notification) 75,000 shares of common stock (par 25 cents), represented by 75,000 warrants presently outstanding. **Price**—$2 per share net to company. **Proceeds** — For working capital. **Office** — Huntington, N. Y. **Underwriters**—S. D. Fuller & Co. and Vermilye Brothers, both of New York.

★ **Macmillan Petroleum Corp., Los Angeles, Calif.**
Sept. 21 (letter of notification) 11,500 shares of capital stock (par five cents). **Price**—At market. **Proceeds**—To Raymond Macmillan and Helen F. Macmillan. **Underwriter**—Lester, Ryons & Co., Los Angeles, Calif.

● **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, 115 Broadway, New York 6, N. Y. Telephone BArclay 7- 8448. **Offering**—Date indefinite.

**Merritt-Chapman & Scott Corp., New York**
Aug. 20 filed 45,912 shares of common stock (par $12.50) being offered in exchange for 57,389 shares of common stock (no par) of Fitz Simons & Connell Dredge & Dock Co. on an eight-for-ten basis. It is proposed to acquire not less than 80% of said Fitz Simons & Connell shares. Offer will expire on Oct. 10. **Underwriter**—None.

● **Michigan Consolidated Gas Co.**
May 15 filed $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. **Bids**—A group headed jointly by Halsey, Stuart & Co., Inc., Harriman Ripley & Co., Inc. and Union Securities Corp. entered the only bid on June 15 for the securities—100.125 for 5s. This bid was rejected. Reoffering had been planned at 101.875 to yield 4.87%. July 6 company sought SEC authority to borrow $20,000,000 from banks on 3¼% notes pending permanent financing which is presently being given consideration.

● **Miracle Hinge, Inc., Monticello, N. Y. (10/5)**
Sept. 14 (letter of notification) 200,000 shares of 7% cumulative preferred stock (par $1) and 200,000 shares of common stock (par one cent) to be offered in units of one share of each class of stock. **Price**—$1.10 per unit. **Proceeds** — For plant improvements, payment of debt, inventory and working capital. **Underwriter** — Walter Aronheim, New York.

**Mississippi Power Co. (10/6)**
Sept. 4 filed $4,000,000 of first mortgage bonds due Oct. 1, 1983. **Proceeds** — For construction program. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Union Securities Corp.; Equitable Securities Corp. and Drexel & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Kidder, Peabody & Co.; The First Boston Corp. **Bids** — To be received up to 11 a.m. (EST) on Oct. 6 at Suite 2000, 20 Pine St., New York 5, N. Y.

★ **Mon-Dak Oil, Ltd., Sidney, Mont.**
Sept. 25 filed 7,800 shares of class A voting common stock (no par) and 685,816 shares of class B non-voting common stock (no par). **Price**—$1 per share. **Proceeds**—For oil and gas leases and to repay notes. **Underwriter**—None.

★ **Motion Picture Laboratories, Inc., Memphis, Tenn.**
Sept. 21 (letter of notification) $50,000 of first chattel mortgage bonds dated Oct. 1, 1953, and 5,000 shares of common stock (par $1) to be offered in units of a $1,000 bond and 100 shares of stock. **Price** — $1,100 per unit. **Proceeds**—For equipment. **Office**—1830 Exchange Bldg., Memphis, Tenn. **Underwriter** — Gordon Meeks & Co., Memphis, Tenn.

**Mountain States Power Co. (10/6)**
Sept. 18 filed $8,000,000 first mortgage bonds due Sept. 1, 1983. **Proceeds**—To repay bank loans and for property additions and improvements. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co. **Bids**—To be received by company at 231 So. La Salle Street, Chicago 4, Ill., up to 10:30 a.m. (CST) on Oct. 6.

★ **National Life & Casualty Insurance Co., Phoenix, Ariz.**
Sept. 28 filed 900,000 shares of common stock (par $1) to be offered to charter policyholders at $1.91 per share; and to new policyholders as may elect to apply their coupon values to the purchase of stock at the initial subscription price of $3.93 per share. **Proceeds**—For expansion of insurance activities. **Underwriter**—None.

**Nevada Natural Gas Pipe Line Co. (10/13)**
Sept. 21 filed 25,000 shrares of $1.50 cumulative preferred stock (par $21) and 75,000 shares of common stock (par $1). Of these shares, all of the preferred stock and 25,000 shares of common stock are to be offered in units of one share of each class of stock at $28 per unit; 25,000 shares of common stock are to be offered for subscription by stockholders of record Sept. 21 at $6.25 per share; and the remaining 25,000 shares of common stock are to be offered publicly at $7 per share. **Proceeds**—For construction of pipe line system and working capital. **Office**—Las Vegas, Nev. **Underwrtier**—The First California Co., Inc., San Francisco, Calif.

★ **New England Fund, Boston, Mass.**
Sept. 23 filed 100,000 shares of capital stock. **Price**—At market. **Proceeds**—For investment. **Underwriter**—None.

● **New England Gas & Electric Ass'n**
Sept. 2 filed 199,268 common shares of beneficial interest (par $8) to be offered for subscription by common stockholders of record Sept. 29, 1953, on the basis of one new share for each 10 shares held (with an oversubscription privilege). Rights will expire on Oct. 16. Subscription rights may be mailed on Oct. 1. **Price**—$13.75 per share. **Proceeds**—To retire bank loans, and increase investments in subsidiary, including Worcester Gas Light Co. **Dealer-Manager**—The First Boston Corp., New York.

★ **New Mexico-San Juan Natural Gas Co.**
Sept. 21 (letter of notification) 748,000 shares of common stock (par 10 cents). **Price**—40 cents per share. **Proceeds**—To develop and maintain leases. **Office**—2135 Gold Avenue, Albuquerque, N. Mex. **Underwriter** — Hunter Securities Corp., New York.

**New York State Electric & Gas Corp.**
Aug. 28 filed 337,118 shares of common stock (no par) being offered for subscription by common stockholders of record Sept. 17 at rate of one new share for each eight shares held; rights will expire Oct. 5. **Price**—$30.62½ per share. **Proceeds** — To repay bank loans and for new construction. **Underwriter** — The First Boston Corp.; Lehman Brothers; Wertheim & Co.; and Merrill Lynch, Pierce, Fenner & Beane; all of New York.

**North Idaho Mines, Inc., Kellogg, Ida.**
July 31 (letter of notification) 400 shares of common stock (no par). **Price**—$125 per share. **Proceeds**—For exploration. **Address**—Box 298, Kellogg, Idaho. **Underwriter**—Robert G. Sparling, Seattle, Wash.

● **Northern Illinois Corp., DeKalb, Ill.**
Sept. 4 (letter of notification) 12,500 shares of $1.50 cumulative preferred stock (no par), being offered to certain company stockholders for a 30-day period from Sept. 21. **Price**—$24 per share. **Proceeds**—For working capital. **Office**—112 E. Locust Street DeKalb, Ill. **Underwriter**—None.

★ **Ohmart Corp., Cincinnati, O.**
Sept. 24 (letter of notification) 13,500 shares of common stock (par $1) to be offered first to common stockholders, then to general public. **Price**—$16.50 per share. **Proceeds**—For equipment and other general corporate purposes. **Underwriter**—Estabrook & Co., New York and Boston.

**Orange Community Hotel Co., Orange, Texas**
Sept. 14 filed 8,333 shares of capital stock (par $20) and 8,333 registered 4% debentures due Jan. 1, 1984 of $100 each to be offered in units of one share of stock and one $100 debenture. **Price**—$120 per unit. **Proceeds**—To construct and equip hotel building. **Underwriter** — None. (Subscriptions to 4,949 shares of stock and 4,949 debentures are held by a group of citizens of Orange formed under the auspices of the Orange Chamber of Commerce.)

**Pacific Gas & Electric Co.**
Aug. 26 filed 1,946,829 shares of common stock (par $25) being offered for subscription by common stockholders of record Sept. 15 at rate of one new share for each seven shares held; rights to expire Oct. 6. **Price**—$33.50 per share. **Proceeds**—To repay bank loans and for new construction. **Underwriter**—Blyth & Co., Inc., San Francisco and New York.

● **Petrolane Gas Co., Inc. (10/6)**
Sept. 15 filed $400,000 of 6% sinking fund debentures, series A, due Oct. 1, 1968 (with common stock purchase warrants attached) and 75,000 shares of common stock (par $1). **Price**—At 100% of principal amount for the debentures and $2 per share for the stock. **Proceeds**—To repay notes and for working capital. **Business**—Distribution of liquefied petroleum gas, tanks and related equipment. **Office**—New Orleans, La. **Underwriter**—P. W. Brooks & Co., New York.

**Planter's Peat Corp., Coral Gables, Fla.**
Aug. 6 (letter of notification) 100,000 shares of 6% cumulative preferred stock (par $2.50) and 100,000 shares of common stock (par 50 cents) to be offered in units of one share of each class of stock. **Price**—$2.50 per unit. **Proceeds**—To liquidate liabilities and for working capital. Office—220 Miracle Mile, Coral Gables, Fla. **Business**—To process peat for fertilizer. **Underwriter**—Frank L. Edenfield & Co., Miami, Fla.

**Rockland Light & Power Co. (10/8)**
Sept. 17 filed 210,721 shares of common stock (par $10) to be offered for subscription by common stockholders of record Oct. 7 on the basis of one new share for each seven shares held (with an oversubscription priviledge), rights to expire on Oct. 21. **Price** — To be supplied by amendment. **Proceeds**—To repay bank loans. **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane, New York.

● **Rockland Light & Power Co. (10/14)**
Sept. 17 filed $8,000,000 first mortgage bonds, series E, due 1983. **Proceeds**—To retire bank loans and for new construction. **Underwriters**—To be supplied by amendment. Probable bidders: Halsey, Stuart & Co, Inc.; First Boston Corp. and Salomon Bros. & Hutzler (jointly); Stone & Webster Securities Corp.; Lehman Brothers, Bear, Stearns & Co. and A. C. Allyn & Co., Inc. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Estabrook & Co. **Bids**—Expected to be received about Oct. 14.

*Continued on page 52*

*Continued from page 51*

**Royal Oil Co., Inc., Wichita, Kansas**
Sept. 8 (letter of notification) 30,000 shares of common stock (par $5). **Price**—$8.25 per share. **Proceeds**—For development and drilling of leases. **Office**—1534 S. Mead, Wichita, Kansas. **Underwriter**—Sills, Fairman & Harris, Inc., Chicago, Ill., and Wichita, Kansas.

● **Saint Anne's Oil Production Co.**
April 23 filed 165,000 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 of Chicago, Ill. Registration statement may be revised.

**Schlafly Nolan Oil Co., Inc.**
March 25 filed 150,000 shares of common stock (par 25¢). **Price**—$4 per share. **Proceeds**—To purchase and sell leaseholds, 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. **Offering**—Indefinitely postponed.

★ **Scudder, Stevens & Clark Fund, Inc.**
Sept. 23 filed 150,000 shares of capital stock. **Price**—At market. **Proceeds**—For investment. **Underwriter**—None.

**Securities Acceptance Corp., Omaha, Neb.**
Sept. 14 (letter of notification) 6,000 shares of 5% cumulative preferred stock. **Price**—At par ($25 per share). **Proceeds**—For working capital. **Office**—304 South 18th St., Omaha, Neb. **Underwriters** — Cruttenden & Co.; Wachob-Bender Corp.; and The First Trust Co. of Lincoln (Neb.).

● **Segal Lock & Hardware Co., Inc., N. Y.**
Sept. 4 filed $975,000 of five-year 6% convertible sinking fund debentures due Oct. 1, 1958, to be offered to common stockholders at rate of one $100 debenture for each 250 shares of common stock held. **Price**—100% of principal amount. **Proceeds**—To repay loans and for working capital. **Underwriter**—None. **Meeting**—Stockholders to vote Oct. 9 on authorizing debentures.

★ **Segoyawatha, Inc., Canandaigua, N. Y.**
Sept. 28 (letter of notification) 3,630 shares of common stock. **Price** — At par ($5 per share). **Proceeds** — For working capital. **Business**—To buy, sell, manage or develop real and personal property in New York State. **Address**—P. O. Box 175, Canandaigua, N. Y. **Underwriter**—None.

**Silver Dollar Exploration & Development Co.**
Aug. 20 (letter of notification) 1,000,000 shares of common stock. **Price** — 30 cents per share. **Proceeds**—For exploration. **Office**—West 909 Sprague Ave., Spokane, Wash. **Underwriter** — Mines Financing, Inc., Spokane, Wash.

● **Southern New England Telephone Co. (10/2)**
Sept. 15 filed 400,000 shares of capital stock to be offered for subscription by stockholders of record Oct. 2 in the ratio of one new share for each 10 shares then held; rights will expire on Oct. 23. **Price**—At par ($25 per share). **Proceeds**—To repay advances from American Telephone & Telegraph Co. **Underwriter**—None.

**Southern Union Gas Co.**
Aug. 10 filed 105,778 shares of common stock (par $1) being offered for subscription by common stockholders of record Aug. 31 on the basis of one new share for each 18 shares held (with an oversubscription privilege); rights to expire Oct. 7. **Price**—$18 per share. **Proceeds**—For additions to properties. **Underwriter**—None.

● **State Fire & Casualty Co., Miami, Fla. (10/7)**
Sept. 10 (letter of notification) 80,000 shares of class B common stock (par $1). **Price**—$3.75 per share. **Office**—3268 N. E. 2nd Ave., Miami, Fla. **Proceeds**—To increase capital and surplus, for expansion and to retire certain preferred shares. **Underwriter**—Floyd D. Cerf Jr. Co. Inc., Chicago, Ill., and Miami, Fla.

★ **Stewart-Warner Corp., Chicago, Ill.**
Sept. 23 (letter of notification) 2,000 shares of common stock (par $5). **Price**—$17.50 per share. **Underwriter**—None.

● **Strategic Materials Corp., Buffalo, N. Y. (10/7)**
Aug. 31 filed 198,500 shares of common stock (par $1) to be offered for subscription by common stockholders at rate of one new share for each share held. **Price**—To be supplied by amendment. **Proceeds**—To repay bank loans and other indebtednesss, for further exploration of properties and for additional working capital. **Underwriters**—Hamlin & Lunt, Buffalo, N. Y., and Allen & Co., New York. W. C. Pitfield & Co., Ltd., of Montreal, Canada, has agreed to purchase 50,000 shares from the underwriters for distribution in Canada. **Offering**—Expected in about 1 to 1½ weeks.

★ **Thermactor Co.**
Sept. 24 (letter of notification) 2,000 shares of capital stock (par $1). **Price** — $100 per share. **Proceeds** — To repay debts; for advances to, or purchase of stock of Thermal Activators, Inc.; for development work and other general corporate purposes. **Office** — 14 Wall Street, New York 5, N. Y. **Business**—A patent holding company. **Underwriter**—None.

★ **Trans-Pacific Insurance Co., Phoenix, Ariz.**
Sept. 21 (letter of notification) 4,244.37 stock units (par $1) to be issued under offer of rescission to expire on Nov. 6, 1953. **Price**—$3 per unit. **Office**—718 West Glenrosa Ave., Phoenix, Ariz. **Underwriter**—None.

★ **Turbo Corp. of America**
Sept. 23 (letter of notification) 500 shares of common stock (no par). **Price**—$100 per share. **Proceeds**—For equipment and working capital. **Business**—To develop and manufacture a new type of jet engine. **Office**—121 So. Broad Street, Philadelphia, Pa. **Underwriter** — None.

★ **United Gas Corp. (10/26)**
Sept. 23 filed $25,000,000 of sinking fund debentures due 1973. **Proceeds**—To purchase $10,000,000 of 5% sinking fund debentures of United Gas Pipe Line Co., a subsidiary, to provide it with funds for construction; and to replenish the treasury of United Gas Corp. and for other general corporate purposes, including advances of such additional funds as may be required by Union Producing Co., another subsidiary. **Underwriters** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co., White, Weld & Co. and Equitable Securities Corp. (jointly); The First Boston Corp., Harriman Ripley & Co., Inc. and Goldman, Sachs & Co. (jointly). **Bids**—Expected to be received up to noon (EST) on Oct. 26.

**United Mining & Leasing Corp.**
Aug. 26 (letter of notification) 1,700,000 shares of common stock. **Price**—At par (10 cents per share). **Proceeds**—For mining operations, equipment, etc. **Office**—Central City, Colo. **Underwriter**—R. L. Hughes & Co., Denver, Colo.

**United States Air Conditioning Corp. (10/5)**
Aug. 28 filed 570,000 shares of common stock (par 10 cents), of which 100,000 shares will be underwritten (including 40,000 shares to be offered to employees and distributors and dealers at a fixed price to be supplied by amendment). The remaining 60,000 shares, plus any of the 40,000 shares not sold, will be offered for sale on the American Stock Exchange or over-the-counter market. An option has also been granted to Mortimer B. Burnside & Co., Inc., to acquire an additional 220,000 shares of stock (also to be offered for sale on the Exchange or over-the-counter market at the then prevailing market price). In addition the company proposes to offer 250,000 shares on March 25, 1954 to holders of its common stock purchase warrants which were sold on Feb. 26, 1953 in connection with the sale of 100,000 shares of common stock, the subscription price under these warrants being $3.06¼ per share. The underwriters have agreed to purchase the 100,000 shares at a price equal to the market less 20%; and the option price to the underwriters for the 220,000 additional shares is the market price, less 17½%. **Proceeds**—For working capital and general corporate purposes. **Underwriters**—Mortimer B. Burnside & Co., Inc., and George F. Breen, both of New York.

★ **United States Finishing Co.**
Sept. 23 filed 240,000 shares of common stock (no par) to be offered in exchange for the 15,000 outstanding common shares of Aspinook Corp. on the basis of 16 shares of Finishing stock for each share of Aspinook stock. The offer is conditioned upon its acceptance by the holders of at least 80% of the Aspinook shares. The stockholders of the Finishing company will vote Oct. 13 on approving the above proposal.

**Universal Finance Corp., Los Angeles, Calif.**
July 27 (letter of notification) 12,000 shares of 6% cumulative preferred stock. **Price** — At par ($25 per share). **Proceeds**—For working capital. **Office**—3460 Wilshire Blvd., Los Angeles, Calif. **Underwriter**—None.

★ **Universal Finance Corp., Dallas, Tex.**
Sept. 21 (letter of notification) 29,000 shares of 70-cent cumulative preferred stock (no par) and 29,000 shares of common stock (par 15 cents) to be offered in units of one share of preferred and one share of common stock. **Price**—$10.15 per unit. **Proceeds**—For working capital. **Office**—1301 Elm St., Dallas, Tex. **Underwriter**—None.

★ **Wardenhoff Mining Co., Big Creek, Idaho**
Sept. 23 (letter of notification) 3,000,000 shares of capital stock. **Price**—10 cents per share. **Proceeds**—For equipment and working capital. **Office** — Big Creek, Valley County, Idaho. **Underwriter**—Jacob B. Vogel.

**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.

● **Welex Jet Services, Inc.**
Sept. 8 (letter of notification) 13,071 shares of common stock (no par) being offered for subscription by stockholders of record Sept. 10 on the basis of one new share for each 12 shares held; rights to expire on Oct. 13. **Price**—$17.50 per share. **Proceeds**—For equipment. **Office**—1400 East Berry Street, Fort Worth Texas. **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**—Postponed indefinitely.

**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**—Postponed indefinitely.

★ **West Virginia Pulp & Paper Co.**
Sept. 28 filed 1,270,344 shares of common stock (par $5) to be offered in exchange for common stock (par $10) of Hinde & Dauch Paper Co. on the basis of 1⅓ shares of West Virginia Pulp stock for each Hinde & Dauch share. The offer will expire on Nov. 18. **Underwriter**—None.

● **Western Massachusetts Companies (10/7)**
Sept. 17 filed 128,316 shares of common stock (no par), of which 122,316 shares are to be offered for subscription by common stockholders at rate of one new share for each eight shares held on or about Oct. 6. The remaining 6,000 shares are to be sold to employees. Subscription rights expire on Oct. 21. **Price**—To be supplied by amendment. **Proceeds**—To be loaned to Western Massachusetts Electric Co., a subsidiary, to be used to retire up to $4,000,000 of outstanding bank loans incurred for construction purposes. **Underwriters**—The First Boston Corp. and White, Weld & Co., both of New York.

**Working Capital, Inc.**
Sept. 4 (letter of notification) 148,700 shares of common stock (par five cents) and 74,350 common stock purchase warrants to be offered in units of 100 shares of stock and 50 warrants (each warrant will entitle the holder to purchase one share of stock at $1.25 per share). **Price**—$125 per unit. **Proceeds**—To make loans. **Office**—55 Hilton Ave., Garden City, L. I., N. Y. **Underwriter**—None.

● **Zirconium Corp. of America (10/5)**
Sept. 18 (letter of notification) 126 shares of common stock (no par). **Price**—$750 per share. **Proceeds**—For new construction and working capital. **Office**—Solon Center Bldg., Solon, O. **Underwriter**—Gordon Meeks & Co., Memphis, Tenn.

# Prospective Offerings

**American Fidelity & Casualty Co. (10/20)**
Aug. 26 it was stated registration is planned for between Sept. 25 and Sept. 30 of 150,000 shares of convertible preferred stock (par $5) to be offered for subscription by common stockholders on a share-for-share basis, about Oct. 20; rights to expire about Nov. 4. Certain stockholders have waived their rights to purchase the new shares. **Price** — To be named later. **Proceeds** — For working capital. **Underwriter**—Geyer & Co., New York.

**American Telephone & Telegraph Co.**
Aug. 19 directors voted to recommend to stockholders that they authorize a new issue of convertible debentures in an amount not to exceed $625,000,000 at a meeting to be held on Oct. 14. **Price**—Expected at par. **Proceeds**—For advances to subsidiary and associated companies. **Underwriter**—None. **Offering**—To be made to stockholders.

● **American Water Works Co., Inc.**
Sept. 25 it was announced company plans to register soon for public offering an issue of about 200,000 shares of preferred stock (par $25). **Underwriters**—W. C. Langley & Co. and The First Boston Corp., both of New York. **Private Placement** — Company has arranged through same bankers to place privately $20,000,000 of 20-year collateral trust sinking fund bonds.

★ **Anchor Post Products, Inc. (10/20)**
Sept. 25 it was announced company plans to offer 32,953 additional shares of common stock (par $2) to its common stockholders of record Oct. 20 at the rate of one new share for each nine shares held; rights to expire on Nov. 16. **Price** — $7.50 per share. **Warrant Agent**—The Empire Trust Co., New York.

**Atlantic City Electric Co.**
Aug. 17, B. L. England, President, indicated that the company early next year expects to raise $14,000,000 to $16,000,000 through the sale of bonds and both preferred and common stock. **Proceeds**—To repay bank loan and for new construction.

**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.

**Aztec Oil & Gas Co.**
Aug. 11 it was reported company's common stock (held by Southern Union Gas Co.) may be offered to stockholders of the parent company on a pro rata basis under a proposed divestment plan.

**Baltimore & Ohio RR. (10/8)**
Bids will be received by the company at 2 Wall St., New York 5, N. Y., up to noon (EST) on Oct. 8 for the purchase from it of $1,500,000 equipment trust certificates, series FF, to be due in 15 equal payments of $100,000 each on Dec. 1, from 1953 to 1967, inclusive. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Kidder, Peabody & Co.

**Bates Manufacturing Co.**
June 25 it was reported company planned to offer and sell 750,000 additional shares of common stock. **Proceeds**—To purchase properties in the South. **Underwriters**—Probably Coffin & Burr, Inc., Boston, Mass., and The First Boston Corp., New York. **Plan Opposed**—Consolidated Textile Co., Inc., is opposing the proposed financing.

**Blair Holdings Corp.**
June 24 it was announced company plans to issue and sell publicly $2,000,000 of convertible debentures. **Proceeds** — For development of Stanwell Oil & Gas Ltd., newly acquired subsidiary. **Underwriters**—Blair, Rollins & Co. Inc. and The First California Co.

**★ Central Illinois Light Co. (10/27)**
Sept. 26 it was announced company plans to offer to its common stockholders of record Oct. 27 the right to subscribe on or before Nov. 13 for 100,000 additional shares of common stock on a 1-for-9 basis (with an oversubscription privilege). Unsubscribed shares to be offered to employees. **Price** — To be named later. **Proceeds**—To repay bank loans and for new construction. **Underwriter**—Union Securities Corp., New York.

**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.

**● Central-Penn National Bank of Phila.**
Sept. 28 the Bank offered to its stockholders of record Sept. 24 the right to subscribe for an additional 125,000 shares of capital stock (par $10) on a one-for-three basis; rights to expire Oct. 13. **Price** — $30 per share. **Proceeds**—To increase capital and surplus. **Underwriter**—Stroud & Co., Inc., Philadelphia, Pa.

**Central Power & Light Co.**
March 2 it was reported company may issue and sell 50,000 shares of new preferred stock. **Underwriters**—To be determined by competitive bidding. Probable bidders: Stone & Webster Securities Corp.; Lehman Brothers and Glore, Forgan & Co. (jointly); Blyth & Co., Inc., Harriman Ripley & Co., Inc. and Smith, Barney & Co. (jointly); Salomon Bros. & Hutzler.

**★ Clorox Chemical Co.**
Sept. 22 stockholders voted to increase the authorized capital stock (par $3.33⅓) from 360,000 to 750,000 shares. There are 328,839 shares outstanding. No plan has been announced for issuance of any additional shares. **Underwriter**—Probably J. Barth & Co., San Francisco, Calif.

**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.

**★ Columbus & Southern Ohio Electric Co.**
Sept. 22 it was reported company plans some financing later this year. **Underwriter**—For any preferred or common stock may be Dillon, Read & Co. Inc., New York.

**★ Delaware Power & Light Co.**
Sept. 21 it was reported that plans offering to common stockholders of 232,520 additional shares of common stock on a one-for-seven basis. **Underwriters** — If determined by competitive bidding, bidders may be: W. C. Langley & Co. and Union Securities Corp. (jointly); White, Weld & Co. and Shields & Co. (jointly); Lehman Brothers; Harriman Ripley & Co. Inc.; Blyth & Co., Inc.; Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly). **Price**—May be set by directors, with bidders to name their underwriting compensation. **Registration**—Expected late in October. **Bids**—Tentatively expected to be received late in November.

**Detroit Edison Co.**
March 24 it was announced company plans to issue an unspecified amount of convertible debentures 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 Industries, Inc.**
Aug. 20 stockholders voted to create an issue of 200,000 shares of preferred stock (par $10), 100,000 shares of which are expected to be offered publicly. **Underwriters**—Blair, Rollins & Co., Inc. and Cohu & Co., both of New York. **Registration**—Expected in September.

**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).

**★ Essex County Electric Co.**
Sept. 21 it was reported company plans issuance and sale of $4,000,000 30-year first mortgage bonds. **Underwriters** — May be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers, Merrill Lynch, Pierce, Fenner & Beane and Union Securities Corp. (jointly).

**Florida Power Corp.**
Sept. 11 it was announced that the company plans to sell approximately $10,000,000 first mortgage bonds due 1983 the latter part of this year. **Proceeds**—To pay off bank borowings and for construction purposes. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Lehman Brothers; Glore, Forgan & Co. and W. C. Langley & Co. (jointly); The First Boston Corp.

**★ Franklin National Bank, Franklin Square, N. Y.**
Sept. 24 it was reported stockholders will vote Oct. 6 on approving an offer to stockholders of 39,000 additional shares (par $10) on a one-for-ten basis. **Underwriter**—Blair, Rollins & Co. Inc., New York.

**General Electric Co.**
Aug. 24 company received SEC authority to acquire its distributive portion of portfolio stocks being distributed by New England Public Service Co. pursuant to that company's plan of liquidation and dissolution. By reason of its ownership of NEPSCO stocks, General Electric will be entitled to receive 97,030.95 shares (3.89%) of the common stock of Central Maine Power Co.; 45,690.45 shares (3.89%) of the common stock of Public Service Co. of New Hampshire; and 20,730.20 shares (2.72%) of the common stock of Central Vermont Public Service Corp. General Electric proposes to sell or otherwise dispose of such securities within a period of one year from the date of such acquisition (subject to its right to apply for additional time to dispose of such securities).

**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.

**★ Government Employees Corp. (11/24)**
Sept. 23, Leo Goodwin, President, announced that the company soon plans to register with the SEC an issue of $500,000 10-year 4% convertible junior subordinated debentures (convertible into common stock at the rate of $20 per share), to be offered for subscription by common stockholders of record Nov. 17 at the rate of $100 of debentures for each 15 shares held; rights to expire on Dec. 9. It is expected that subscription warrants will be mailed on or about Nov. 24. **Price**—At par. **Proceeds**—For working capital, etc. **Office** — Government Employees Insurance Bldg., Washington 5, D. C. **Underwriter**—None.

**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. Putnam & Co., Boston, Mass.

**Hartford Electric Light Co.**
July 29 it was reported company plans to offer to its common stockholders 105,500 additional shares of common stock on a 1-for-8 basis before Dec. 31, 1953, probably without underwriting. Stockholders to vote Sept. 29. **Proceeds**—For construction program.

**Idaho Power Co.**
Aug. 6, officials of Blyth & Co., Inc. and Bankers Trust Co., New York, testified before the Federal Power Commission that this company plans to raise $184,550,000 to finance construction of three hydro-electric projects on Snake River, Idaho. If approved, the financing will consist of $105,000,000 of bonds through 1962; $27,400,000 of preferred stock; and $52,150,000 of common stock. Throughout the financing period, the company would borrow and repay $29,000,000 of short-term loans. Final financing details would depend on market conditions.

**★ Illinois Power Co.**
Sept. 21 it was reported company is planning to issue and sell $20,000,000 of first mortgage bonds. **Underwriters** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; White, Weld & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Harriman Ripley & Co. Inc. and Glore, Forgan & Co. (jointly); The First Boston Corp.; Kuhn, Loeb & Co. **Offering**—Expected in November.

**Long Island Lighting Co.**
April 21 it was announced that company this Fall plans to issue and sell an issue of about $25,000,000 of first mortgage bonds (this is in addition to 785,648 shares to be offered in October to stockholders and employees). **Proceeds**—To repay bank loans and for new construction. **Underwriters**—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.

**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. **Prcoeeds** — To help finance a new bottling plant. **Underwriter**—None.

**Manabi 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.

**Milwaukee Gas Light Co.**
July 7 company sought SEC approval of a bank loan of $9,000,000 the mature Aug. 1, 1954. These borrowings, plus retained earnings, are designed to finance expansion pending formulation of permanent financing prior to maturity of notes. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Glore, Forgan & Co. and Lehman Brothers (jointly); Smith, Barney & Co. and Blyth & Co., Inc. (jointly); Kuhn, Loeb & Co.; Kidder, Peabody & Co.; Harriman Ripley & Co. Inc.

**Minnesota Power & Light Co.**
Aug. 3 it was announced stockholders will vote Oct. 1 on increasing the authorized common stock (no par) from 2,000,000 shares (858,047 shares outstanding) to 3,000,000 shares and on approving a 2-for-1 stock split. This will place the company in a position to proceed promptly with any new financing that may become necessary. Immediate offer not contemplated. **Underwriters**—May be determined by competitive bidding. Probable bidders: Kidder, Peabody & Co.; Blyth & Co., Inc.

**Monongahela Power Co. (12/1)**
Sept. 9 it was announced that company is planning issuance and sale of $10,000,000 first mortgage bonds due 1983. **Proceeds**—For construction program. **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. **Bids**—Tentatively expected to be received on Dec. 1. **Registration**—Expected about Oct. 30.

**★ Mystic Valley Gas Co.**
Sept. 21 it was reported company plans issuance and sale of about $6,000,000 of bonds. **Underwriters**—May be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Merrill Lynch, Pierce, Fenner & Beane and Union Securities Corp. (jointly); Lehman Brothers; Kidder, Peabody & Co.

**★ Narragansett Electric Co.**
Sept. 21 it was reported that company plans issuance and sale of about $7,500,000 of preferred stock some time during the first quarter of 1954. **Underwriter**—Previous preferred stock offer (in 1940) was handled by The First Boston Corp. If sold through competitive bidding, probable bidders may include The First Boston Corp.; Merrill Lynch, Pierce, Fenner & Beane and Union Securities Corp. (jointly); Blyth & Co., Inc. and Harriman Ripley & Co. Inc. (jointly); White, Weld & Co.; Lehman Brothers and Goldman, Sachs & Co. (jointly); Kidder, Peabody & Co. and Stone & Webster Securities Corp. (jointly).

**● National Bank of Detroit (Mich.)**
Sept. 24 company offered 313,200 additional shares of common stock (par $10) to its common stockholders of record Sept. 24 on the basis of one new share for each five shares held; rights to expire on Oct. 15. **Price**—$45 per share. **Proceeds**—To increase capital and surplus. **Underwriter**—Morgan Stanley & Co., 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. **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.

**Niagara Mohawk Power Corp. (10/28)**
Sept. 22, Earle J. Machold, President, announced company plans to offer and sell an issue of $40,000,000 general 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.; Morgan Stanley & Co.; The First Boston Corp.; Kuhn, Loeb & Co. **Bids**—Tentatively expected to be received on Oct. 28.

**★ North Shore Gas Co.**
Sept. 21 it was reported that company plans issuance and sale of about $3,000,000 bonds. **Underwriters**—May be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Merrill Lynch, Pierce, Fenner & Beane and Union Securities Corp. (jointly); Lehman Brothers; Kidder, Peabody & Co.

**★ Northern Natural Gas Co.**
Sept. 23 it was announced company plans to issue and sell some additional debentures later this year. **Proceeds**—To repay bank loans. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.

**Northwest Natural Gas Co.**
March 23 it was reported that this company plans to finance its proposed 1,300-miles pipeline from Canada to the Pacific Northwest by the issuance and sale of $66,000,000 of 4½% first mortgage pipeline bonds to insurance companies and other institutional investors and $9,000,000 of 5% debentures and 1,400,000 shares of common stock at $10 per share publicly in the United States and Canada. **Underwriter**—Morgan Stanley & Co., New York.

**★ Oklahoma-Mississippi River Products Pipe Line, Inc.**
Sept. 23 it was reported this company, a newly organized subsidiary of Sunray Oil Corp., plans to issue and sell both privately and publicly, some securities to finance the construction of a 475-mile pipeline from Duncan, Okla., to the Memphis, Tenn., area, at a cost of $22,000,000 to $25,000,000. **Underwriter**—Dillon, Read & Co. Inc. **Registration**—Expected in October. **Offering**—Probably in November.

**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.

**Otter Tail Power Co.**
June 25 FPC authorized company to issue a maximum of $4,000,000 unsecured promissory notes to banks, the proceeds to provide funds to temporarily finance the company's 1953 and 1954 construction programs prior to arranging for long-term financing. **Underwriters**—May be Glore, Forgan & Co. and Kalman & Co.

**Pacific Telephone & Telegraph Co.**
July 2 it was announced company plans to issue and sell to its stockholders 1,004,603 additional shares of capital stock on a 1-for-7 basis. **Price**—At par (100 per share. **Proceeds**—To repay bank loans. **Underwriter**—None. American Telephone & Telegraph Co., parent owns 91.25% of Pacific's outstanding stock. **Offering**—Not expected until the early part of 1954.

*Continued on page 5*

Continued from page 53

**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. Financing is now being done privately through sale of $34,125,000 bonds. **Underwriters**—Glore, Forgan & Co. and Stone & Webster Securities Corp., both of New York. Of the common stock of this company, 83% is now owned by Northern Natural Gas Co.

**Petroleum Service, Inc. (Texas)**
Aug. 4 it was reported company is considering issue and sale of $300,000 of 6% debentures due 1963 (convertible into common stock). **Underwriters** — Probably Garrett & Co., Dallas, Texas. **Offering**—Expected this fall.

**Portland General Electric Co.**
July 22, Thomas W. Delzell, Chairman, and James H. Polhemus, President, announced that financing of its 1953 construction program, which will range between $8,700,000 and $9,200,000, is being accomplished by means of bank loans under a credit arrangement which will mature in November, 1953. Repayment of the loans at maturity, plus the procurement of an additional $1,500,000 needed for the rest of the year, will be accomplished either by expansion of the credit arrangement or by the sale of first mortgage bonds. Previous bond financing was done privately through Blyth & Co., Inc.

**Public Service Electric & Gas Co. (10/27)**
Sept. 10 company filed an application with the New Jersey Board of Public Utility Commissioners covering the proposed issuance and sale of $30,000,000 first and refunding mortgage bonds to be dated Oct. 1, 1953 and mature Oct. 1, 1983. **Proceeds**—To repay bank loans and for new construction. **Underwriters**—May be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co. and Lehman Brothers (jointly); Morgan Stanley & Co. and Drexel & Co. (jointly); The First Boston Corp. If by negotiated sale, Morgan, Stanley & Co., Drexel & Co. and Glore, Forgan & Co. may head syndicate. **Bids**—Expected to be received on Oct. 27.

**Public Service Electric & Gas Co. (10/20)**
Sept. 10 company filed an application with the New Jersey Board of Public Utility Commissions covering the proposed issuance and sale of 800,000 shares of common stock (no par). **Proceeds**—To retire bank loans and for property additions and improvements. **Underwriters**—Morgan Stanley & Co., Drexel & Co. and Glore, Forgan & Co. handled common stock financing last March.

**Riddle Airlines, Inc., New York**
Aug. 11 it was announced company plans future public financing to secure cargo transport aircraft.

**San Jose Water Works**
Sept. 15 company applied to the California P. U. Commission for permission to issue and sell 40,000 shares of convertible preferred stock (par $25) and for exemption from competitive bidding. **Price**—To be announced later. **Proceeds**—To repay bank loans and for new construction. **Underwriters** — Latest preferred stock issue was underwritten by Dean Witter & Co.; Blyth & Co., Inc.; Elworthy & Co.; and Schwabacher & Co.

**Seaboard Finance Co.**
Aug. 11 it was reported company may do some public financing (probably in the form of debentures) before the end of this year. **Underwriter**—May be The First Boston Corp., New York.

**Sky Ride Helicopter Corp.**
Sept. 3 it was announced that the company contemplates issue and sale of 1,490,000 additional shares of capital stock (no par), following completion of present offering of 10,000 shares at $2 per share. **Offering**—Expected in November or December. **Office**—1705—38th St., S. E., Washington, D. C.

**Southwestern Development Co.**
See Westpan Hydrocarbon Co. below.

**Southwestern Public Service Co.**
Aug. 6 it was announced company plans to issue and sell about $20,000,000 of securities (to consist of around $12,000,000 bonds; from $2,000,000 to $3,000,000 of preferred stock; and the remainder in common stock, the latter to be offered first to stockholders on a 1-for-13 basis). **Underwriter**—Dillon, Read & Co., New York. **Offering**—Expected in January or February 1954.

★ **Suburban Electric Co.**
Sept. 28 it was reported company plans issuance and sale of about $4,000,000 bonds. **Underwriters**—May be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Merrill Lynch, Pierce, Fenner & Beane and Union Securities Corp. (jointly); Lehman Brothers; Kidder, Peabody & Co.

**Virginia Electric & Power Co.**
Sept. 3 it was announced company plans to sell 558,946 additional shares of common stock later this year. At current market price, the sale would amount to about $14,000,000. **Proceeds**—For construction program. **Offering**—Probably late in November or early December of this year. **Underwriters**—To be determined by competitive bidding. Probable bidders: Stone & Webster Securities Corp.; Blyth & Co., Inc.; Merrill Lynch, Pierce, Fenner & Beane, and Kidder, Peabody & Co.

**West Coast Transmission Co.**
April 1 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.

**Westpan Hydrocarbon Co.**
July 1 SEC granted Sinclair Oil Corp. an extension of six months from June 21, 1953, in which to dispose of its holdings of common stock in Westpan and the Southwestern Development Co. Sinclair owns 384,860 shares (52.85%) of the stock of each of the other two companies. **Underwriter**—May be Union Securities Corp., New York.

**Worcester County Electric Co. (11/17)**
Sept. 18 it was announced company proposes to file a registration statement with the SEC shortly with respect to the issue and sale of 75,000 shares of cumulative preferred stock (par $100). **Proceeds**—To repay bank loans and for new construction. **Underwriters**—To be determined by competitive bidding. Probable bidders: Blyth & Co., Inc.; Lehman Brothers; Merrill Lynch, Pierce, Fenner & Beane; Equitable Securities Corp. **Bids**—Tentatively scheduled to be received by company at its office, 441 Stuart St., Boston 16, Mass., up to 11 a.m. (EST) on Nov. 17.

**Yates Uranium Co., Inc. (Canada)**
Sept. 2 it was reported company plans to issue and sell 2,000,000 shares of common stock (par 1 cent). **Price**—15 cents per share. **Proceeds**—For working capital, etc. **Underwriter**—Tellier & Co., New York.

# *Our Reporter's Report*

The corporate new issue calendar is so thin currently that it can readily be called anemic without over-emphasizing the situation. There had been some expectation that the New Jersey Turnpike Authority might bring its pending $150,000,000 of revenue bonds to market to kind of fill the gap in the period, but latest advices put that issue back at least another week.

All things considered, however, it is perhaps just as well that the roster is not overburdening, as it threatened to be a few weeks ago. For the moment the underwriting industry, much the same as most other lines of endeavor, is gripped by a different form of enthusiasm. Not that it could not control such feelings if necessary required it.

**But for the moment the rank and file are giving no little part of their attention to the impending World Series and you can bet that the better part of the last week has been spent in scouting up desirable "ducats" for visiting dignitaries.**

From what one can hear around the Street the latter task has been almost as difficult of accomplishment as trying to get additional quotas of some of the recent new offerings, most of which have since pushed forward to command sizable premiums under such demand.

### Veritable "Dead-Heat"

It is seldom that competing banking groups come closer to an actual tie than happened to be the case in bidding for Indiana & Michigan Electric Co.'s $15,000,000 of new 30-year first mortgage bonds.

**A matter of merely four cents per $1,000 separated the winning bid, 101.614, and that of the runners-up, 101.61. It has become more or less custom these days to carry the bid out at least three digits after the decimal, but this was one occasion where the second bidder let the practice slide. Four out of the five bids were stretched to three or four digits after the decimal.**

Even though the bidding was extremely close, the reoffering failed to stir up anything approaching "out-the-window" performance for the bonds. Priced at 102.31 to yield 3.50%, the issue was reported attracting considerable numbers of small buyers, but with large institutions still holding off.

### Little Business Ahead

Next week will bring a continuation of the veritable dearth of new issues in the corporate field. Right now only one offering is definitely scheduled, and that by the negotiated route.

This involves 230,000 shares of additional common stock of Iowa Electric Light & Power Co., slated for offering about next Wednesday unless something happens to alter present plans.

The issuing utility will use the proceeds from the sale to finance new construction, part of it now in progress.

### Looking to Future

There is not much actual business in sight until along toward the end of the month when two utilities are slated to bring new bond issues to market.

**United Gas Corp. is slated to open bids for $25,000,000 of debentures on Oct. 26, while Public Service Electric & Gas Corp. is due to market $30,000,000 of new bonds the following day.**

Meanwhile it is indicated that American Water Works Co., Inc., contemplates filing with the Securities and Exchange Commission of the necessary registration to cover a projected issue of 216,000 shares of its $25 par value preferred stock to be underwrtten by negotiation.

# Cruttenden Announces Reg. Representatives

CHICAGO, Ill. — Cruttenden & Co., 209 South La Salle Street, members of the New York Stock Exchange and other leading Stock Exchanges, announces the association with them as registered representatives of Norman B. Baum, Walter L. Cole, and Paul H. Gates, Chicago; John S. Coleman and John G. Coleman of Pekin, Illinois; Clarence E. Mailander, Rockford, Ill.; Standley B. McFadden, Springfield, Ill.; Ford H. Kaufman and Carl E. Harris, Indianapolis; Merton J. Davis, LaPorte, Ind.; Ernest A. Froh, Coldwater, Mich.; Jacob H. Shoemaker, Grand Rapids; James H. Tolhuizen, Kalamozoo, William R. Davey, Negaunee, Mich.; Harold H. Giger and William E. Davis, St. Louis; Frank L. Wilcox, De Pere, Wis.; George H. Lough, Ft. Atkinson, Wis.; Hiram C. Smith, Lake Geneva, Wis.; Charles R. Dale, Madison, Wis.; John F. Ellerman, Manitowoc, Wis; Harold H. Emch, Jr., Milwaukee.

# Indiana & Michigan Electric Bds. Offered

Union Securities Corp. and associates are offering today (Oct. 1) $15,000,000 of Indiana & Michigan Electric Co. first mortgage bonds, 3⅜% series, due 1983, at 102.31% and accrued interest, to yield 3.50%. Award of the issue was won by the group at competitive sale on Tuesday on a bid of 101.614%.

Of the net proceeds from the sale of the bonds, and from the sale of 60,000 shares of 4.56% cumulative preferred stock, $11,500,000 will be used by the company to prepay bank notes issued for construction purposes. The balance will be used to pay for a portion of the cost of extensions, additions and improvements to the company's properties in 1953 and 1954.

The bonds will be redeemable, at the option of the company, at regular redemption prices ranging from 106⅜% to the principal amount, and at special redemption prices ranging from 102⅜% to the principal amount, plus accrued interest in each case.

Indiana & Michigan Electric Co. is engaged principally in the generation, distribution and sale of electric energy throughout an area in northern and east-central Indiana and the southwestern part of Michigan. The company serves 148 communities in an area with an estimated population of 1,078,000. It also furnishes heating service in limited areas in South Bend, Muncie and Marion, Indiana.

For the 12 months ended June 30, 1953, the company had total operating revenues of $47,518,885 and net income of $8,338,014.

Continued from page 42

# Mutual Funds

the thirties that an appreciable number were formed. Several companies of this type were organized during 1932 and 1933, and more were formed as the decade progressed. Some of them were trusts and some were corporations, but before long all of them became known as mutual funds.

The mutual fund industry did not mushroom overnight. There was moderate growth, both in the number of funds and in the size of individual funds during the '30's, but this growth received a setback following the decline in the market in the 1937-1938 period.

Mutual funds also suffered during this period from unfavorable publicity which stemmed from the hearings and investigations which were being carried on for the purpose of developing a Federal law which would regulate investment companies.

**THE STOCK** market break of 1929 had burst a great speculative bubble, not only for investment trusts but for the securities business in general. One of the first steps taken by the new Democratic Administration in 1933 was the adoption of a Federal law to regulate the securities business. This law was not aimed at investment trusts — actually it did not even recognize their existence. Instead, the Securities Act of 1933 was aimed at one of the culprits of the 1929 period—offerings of questionable new issues. The basic idea of the Securities Act was, and is, to assure full disclosure of all pertinent facts regarding any new issue.

In 1905, life insurance companies were thoroughly investigated by a legislative committee of the State of New York. Reputation developed from this investigation was a big factor in the furtherance of their remarkable growth.

The next step was a law designed to end manipulations on stock exchanges, and otherwise to control the activities of brokers and dealers. This, of course, was the Securities Exchange Act of 1934. It was this law which established the Securities and Exchange Commission.

The next year, Congress adopted the Public Utility Holding Company Act of 1935. One provision of this law directed the Securities and Exchange Commission to make a study of the investment company industry and to report its findings to Congress. Under this provision, there began a long series of hearings into the problems which existed in the investment company field. Partly because the industry had been so new, and partly because of the speculative excesses which had typified the period prior to 1929, the investment trust industry had been subject to a great many abuses. However, most of these were due to the industry being young and the lack of experienced personnel.

Out of the investigation of these problems there came a great deal of unfavorable publicity, but there was also developed the Federal Investment Company Act of 1940. When this law was finally adopted, it represented years of work by the Securities and Exchange Commission and the investment company industry itself. It also represented a constructive factor of great importance in the subsequent development of the industry.

*Continued from page 15*

# Current Thinking at the SEC

that the Commission can do as much or as little inspecting as it determines. As a matter of practical fact, the extent of the broker-dealer inspection program depends primarily on the availability of funds. Unfortunately the general public labors under the impression that brokers and dealers are examined pretty much the same as banks. That isn't so. Under present budgets, it can't be so. The Commission is anxious that the investing public and the Congress understand this fact.

The Commission and the National Association of State Securities Administrators are engaged in a cooperative study to determine the extent to which over-lapping of the State and Federal broker-dealer inspection programs can be eliminated. The SEC inspection covers both financial condition and trading and selling practices. State inspections vary widely from State to State, and in some States are non-existent or nearly so. Since neither the SEC nor the State Commissions have available funds to make regular, periodic inspections of each registrant, there should be some coordination designed to avoid harassing multiplicity of inspections of some and long-time omission of inspection of others.

In addition to official inspections by the State authorities and by the SEC, there are inspections by the National Association of Securities Dealers and, in the case of the members of national security exchanges, by such exchanges. A public agency cannot, of course, abandon its functions to private agencies nor would the members of a private agency support the use of their inspectors as informers to the public authorities with respect to matters not involving defalcations or insolvency.

Considered in the aggregate, dealers in securities are subject to multiple inspections but from the standpoint of the public, the whole scheme is somewhat haphazard. This subject is receiving serious consideration. I hope that our Commission and the other inspecting authorities can come forward with some helpful and intelligent recommendations.

While on the subject of organization and programs, let me mention the matter of statistics. The Commission publishes monthly a statistical bulletin which covers, in some cases monthly and other cases quarterly, the following subjects:

- New Securities Offerings for Cash
- Sales on Securities Exchanges
- Indexes of Common Stock Prices
- Short Interest in NYSE Stocks
- Transactions in Round-Lots on the New York Exchanges for Members and Non-Members
- Transactions in Odd-Lots on the New York Exchanges
- Effective Registrations of Securities
- Underwriters of Registered Issues
- Managers of Underwriting Groups
- Investment Company Transactions and Assets
- Special Offerings on Exchanges
- Secondary Distributions
- Working Capital of Corporations
- Saving by Individuals
- Expenditures on New Plant and Equipment

It also publishes an Official Summary of Security Transactions and Holdings covering trading by persons subject to Section 16 of the Securities Exchange Act, Section 17(a) of the Holding Company Act and Section 30(f) of the Investment Company Act.

In addition, there is a quarterly financial report of the United States manufacturing corporations published cooperatively by the Federal Trade Commission and the SEC.

None of these statistical reports is required by statute. Some of them are made for the use of other departments of the Government. Others are compiled in the normal course of keeping track of our own day-to-day operations. Commissioner Goodwin has been delegated by the Commission to make a thorough study of our statistical programs and to consult with the Bureau of the Budget with a view to determining whether or not any of the Commission's statistical activities are unnecessary, duplicative or primarily for private benefit.

While on the subject of programs, may I allude briefly to the Commission's authority under Section 30 of the Public Utility Holding Company Act to conduct studies to determine the size, type and location of public utility companies which can operate most efficiently in the public interest so as to further wider and more economical use of gas and electricity. Except for studies made in connection with administering other Sections of the Act, the Commission has never done any of the overall economic planning contemplated by Section 30. While my predecessor proposed a program to initiate staff work under this Section, it is the view of the present Commission that as a part of an Administration dedicated to less government, not more, it should not ask the Congress for funds to make studies to which no one would be bound to pay any attention. This view is, of course, actuated in part by the fact that the use of gas and electricity has without such studies increased so vastly since the Act was passed in 1935.

Now let me discuss briefly some currently pending proposals to simplify our rules, regulations and forms. Please let it be understood that I am speaking in terms of present intention and that what I say is neither a representation no a warranty as to what will happen or when.

First as to registration procedure under the Securities Act of 1933. A new and shorter form for registration of investment company securities is about to be adopted. The Commission has under study the use of other simplified forms for registration of securities in certain special situations; for example; extended availability of Form S-8, the short form now available for only certain types of offerings to employees; the adoption of an abbreviated form of registration statement for institutional grade debt securities of issuers already filing reports with the Commission; the curtailment in all registration statements of the requirement for filing contracts. As a corollary to the adoption of a more simple form of registration statement, the Commission is studying reduction of its examining procedures with respect to registration statements for institutional grade debt securities and a consequent shortening of the normal 20-day waiting period. This should have the effect of making public offerings more competitive with private placements. In addition, work is being done on the subject of a consolidation of forms.

The Division of Corporate Regulation—formerly the Division of Public Utilities—under its new Director, Robert A. McDowell, is making a study, the result of which we hope will be to eliminate some duplication of filing as between the Securities Act and the Public Utility Holding Company Act. A study is under way to determine whether in case of securities sold to underwriters at competitive bidding, a method can be worked out whereby the underwriters can re-offer without waiting for post-effective orders of the Commission. This would eliminate some of the nerve wracking and expensive last minute scramble which follows the opening of bids and in some cases would shorten the carry by the underwriters. It would not, however, deprive investors of any protection presently afforded.

The Commission may soon circulate for comment a proposal to eliminate entirely with respect to companies soliciting proxies, all of the Form 10-K annual report except the financial statements. This should not only be a relief to issuers but it cuts down by many pounds and pieces the amount of paper which the Commission staff must handle, examine and file. The proposal removes no protection from security holders because the items which constitute the text of the 10-K report call for information which is already available in 8-K current reports or proxy statements. It is also proposed to reduce the list of transactions in respect of which a Form 8-K current report will be required. As you know, the Commission has already circulated a proposal to eliminate the 9-K quarterly report of gross sales or revenues. The report is felt to have a misleading effect because the current trend of a company's gross sales may be contrary to the trend of its earnings. These steps should enable the staff to clear the backlog of unexamined material and thereafter to keep current.

It is proposed shortly to circulate for comment changes in the proxy rules, largely clarifying changes. A controversial item, however, has to do with security holders' proposals. Keeping in mind that proxy solicitation by management represents an expenditure of corporate funds from which management benefits by prospective election to office, the Commission dos not deem it fair to choke off the submission of security holders' proposals. After all, the submission of such proposals and the tabulation of votes thereon are at worst a comparatively inexpensive burden considering the size of the corporations subject to the proxy rules. It is recognized, of course, that personal publicity motivates the makers of some proposals, and also that defeat of a proposal by an overwhelming majority furnishes justification to deny the use of corporate funds for repetitive submission. In addition, some proposals cover matters which are obviously not proper subjects for action by security holders.

The Commission intends to suggest that management need not print in its proxy material the name and address of the proponent of a proposal (this should quench the ardor of the publicity-seeker). Another intended suggestion of the Commission is to change the present rule which permits non-inclusion of proposals which within one year received less than 3% of the votes cast. A somewhat higher percentage will be proposed. The staff will continue to screen out proposals which are not proper subjects for action by security holders and consideration is being given to administrative directives to use a screen with a somewhat closer mesh.

The rule requiring inclusion of security holders' proposals in management's proxy material has been availed of frequently by a few professionals and seldom by the general run of stockholders. The Commission does not propose to choke corporate democracy. Neither does it propose to encourage abuse of their privilege by those who use it as a grindstone for their own axes.

Another field to which our attention is being directed is the intervention of the Commission in proceedings under Chapter X of the Bankruptcy Act. The statute itself provides for mandatory intervention at the request of the Court and for discretionary intervention on the Commission's own motion. While the jurisprudence under Chapter X was being developed, the Commission and its staff, as a body of presumed experts, had a greater duty than at present to press upon the Courts the benefit of their experience and special competence. Now that the jurisprudence under Chapter X has been developed over a period of 15 years, the Courts and the litigants would not suffer substantially from a curtailment of discretionary intervention by the Commission. The Commission's policy on this subject will be on a case for case basis, as it has been in the past, but it may be anticipated that budget limitations and the fact that the Courts and litigants are able to take care of themselves will cut down somewhat the number of interventions. My observations on this subject are necessarily general and are dictated more by budgetary considerations than by philosophy. After all, bankruptcy is a field which is constitutionally allocated to the Federal Government.

What I have said up to this point should indicate the direction in which the Commission is traveling. I think it only fair to prophesy that the pace may be slow. The Acts administered by the Commission were enacted over a period of eight years, 1933 to 1941. Its rules, regulations, forms and policies have grown up over a period of 20 years. Almost every rule, regulation, form or policy has a plausible reason behind it and has its staunch defenders either among the public or on the staff or both. It may be that in cutting our way through the brush we can do some work with axe and scythe but, keeping in mind the complex character of the capital markets, I am inclined to think that most of our cutting will be with sickle and pruning shears.

Moreover, it must be borne in mind that high-level staff members and the Commissioners themselves must participate actively in the rule changing process and that such participation must be worked in to a fairly tight schedule of day to day work. The Commission must necessarily sit for several hours each day to dispose of quasi-judicial matters and to pass upon policy questions propounded by the staff. It may be that the latter function can be effectively delegated—eventually. However, for the time being it is felt that the only way that the philosophy of the Commission can be communicated to the staff is to keep a fairly close check on the handling of specific problems of the Commission's "customers."

In conclusion, let me make a passing reference to the suggestion made from time to time that the Securities Act of 1933 be supplanted by what amounts to a fraud statute implemented perhaps by a filing with some Federal agency of unexamined offering literature. This involves, of course, a reversal of the philosophy which underlies the present Act, namely, that of preventing fraud by enforcing standards of disclosure. That, of course, is a question for the Congress. I would prophesy, however, that such legislation is not likely to be enacted. So long as our Acts are based on disclosure, there will be forms, rules, details, problems and arguments. The modern corporation and the mechanics of the capital market are not simple. The aim of the Commission is to perform with vigor and alertness its statutory duties for the protection of investors without adding unnecessarily to the inherent complexity of capital formation.

# Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C. — Put aside for a couple of months, at least, your hopes or fears, as the case may be, that the Administration will give serious consideration to pouring out hundreds of millions of Federal cash to spur the supposedly lagging housing construction industry.

Al Cole really hit the headlines the other day when he warned the bankers to give sober consideration to the question of whether private finance was doing its proper job, now that there is more or less a free money market.

Private finance's proper job, as Mr. Cole, the Housing and Home Finance Administrator and the Administration sees it, is to keep a proper level of housing mortgage money going. The proper level of housing construction is around 1 million units per year.

This housing construction level is still an unofficial commitment, which is not writ on Federal statutes like parity income for basic farm crops under the farm price support program. Nevertheless, this goal is in fact an almost rigid Administration commitment.

And if it were not an Administration commitment, Congress probably would make it its own, for the handling and broadening of the more or less original mild Administration approach on housing legislation at the last session of Congress makes it clear that Congress regards a nice round figure of not less than 1 million units of construction as something politically sacrosanct.

**If Al Cole's remarks are read carefully, they make it clear that he is worrying about 1954. Like the home building industry—if not quite as much so—Mr. Cole is worrying for fear the absence of the hitherto easy mortgage money will frighten a lot of builders into staying out of the business next year, when they have to consider the uncertainties of selling and credit along with the problems of building houses.**

### Are Optimistic On Construction

By and large Administration officials are optimistic on the total construction outlook next year. This year, according to official forecasts, total construction will reach a new grandiloquent high of $34.6 billion. Most officials are said to expect a total in 1954—barring any basic change in the business scenery —of only about $1.5 billion less than this year.

**While the rate of housing starts has been declining in each of the last four reported months, the latest showed an annual rate of 970,000 units, or pretty near to the holy political goal. Officials have not seen fit to expect that the housing segment of the total construction picture will fall short this year of the official forecast of around 1.1 million units.**

With the total construction outlook so strong, and with zooming of industrial building after the removal of credit and materials controls, the goal of 1 million housing units becomes less sacred.

So long as the Federal Reserve and Administration are trying to hold business expansion within some bounds, and total construction is up, it is pretty hard to get some important people unduly excited at this moment about housing. The prospect of a sharp drop will have to be far more definite before they will catch the fever which causes the housing industry daily and twice on Sundays to become delirious about the "drying up of mortgage money," a greater volume of mortgage funds overall this year than last, incidentally.

### Treasury Has Needs

Then, too, the Treasury has a problem. It is pushing the debt limit, which it must stay under until January on pain of a special session of Congress. Every dollar's worth of mortgages purchased by the Federal National Mortgage Association shows up as a disbursement of cash. There is only one way by which mortgage money could be pumped out quickly, and that is by direct purchases. An advance commitment (to purchase) program would lead to disbursement two, three, or four months later.

Furthermore, the Treasury must borrow some undetermined amount of its new money needs short of breaching the debt limit, for the quarter beginning this month. The Treasury could handily use in the neighborhood of $5 billion but won't, because of the debt limit, forcing it to operate on a smaller than average cash balance.

**Actually the real issue between the lenders and the building industry is over the tail-between-the-legs situation of the insured mortgage. Under the free market coming into bloom, the middle and upper middle class housing, for years borne down upon by government both through more favored terms pitched for "low cost housing" and through former regulations restricting mortgage credit more severely, is finally having something of a break.**

This has caused Emanuel M. Spiegel, President of the National Association of Home Builders, to view with alarm the prospect, "Are mortgage lenders returning to 'horse and buggy' financing?" He means with term mortgages and second trusts.

A large number of builders have become used to doing it entirely the FHA way. Under the FHA way, once papa FHA approves the set-up, the builder is sure of both financing and usually also of a sale, for with the easy money FHA has been throwing to "low cost" housing it wasn't much trouble to hook a buyer with the down payment money.

Builders used to doing it the easy FHA way are as reluctant to change over as are tobacco farmers to change to another crop even if they are producing only for government storage. For the time being the tobacco growers won't have to get out of their rut, but maybe some of the builders will. There is as yet no prospect of building government warehouses to store production-supported housing in excess of a salable demand.

### Oil Antitrust Suit Is Giving Pain

There are acute internal pains within the Eisenhower Administration over the pending Department of Justice civil suit against the "foreign oil cartels."

It is recalled that one of the vote-catching stratagems of the late Truman Administration was to launch a criminal antitrust suit against the so-called cartels. Then, when the Eisenhower Administration appeared, the Justice Department junked the criminal suit but went on with a civil suit.

**However, now that the government of Iran is straightened out and perhaps willing to make some kind of a settlement with the British, the State Department is worrying about the time when Iran's oil production might again come on to the world market. Iran can produce up to something like 600,000 barrels of crude per day. The Abadan refinery, which probably can't be put into full production for a year following the reaching of a settlement with the British, can refine between 400,000 and 500,000 barrels of this crude output.**

Since the oil output of Iran was shut off, however, other producers, by just the kind of collective agreements among foreign oil producers which would be hit by a cartel suit, pooled together and have supplied the oil that was subtracted from world production by the closing down of Iran.

If a settlement is to be reached between Iran and the British calling for a return of Persian oil to the world market, then foreign producers, including the foreign oil activities of U. S. firms, will be required by collective agreement to curtail production at Kuwait, Saudi-Arabia, and perhaps other areas, to ease Iran back into the market.

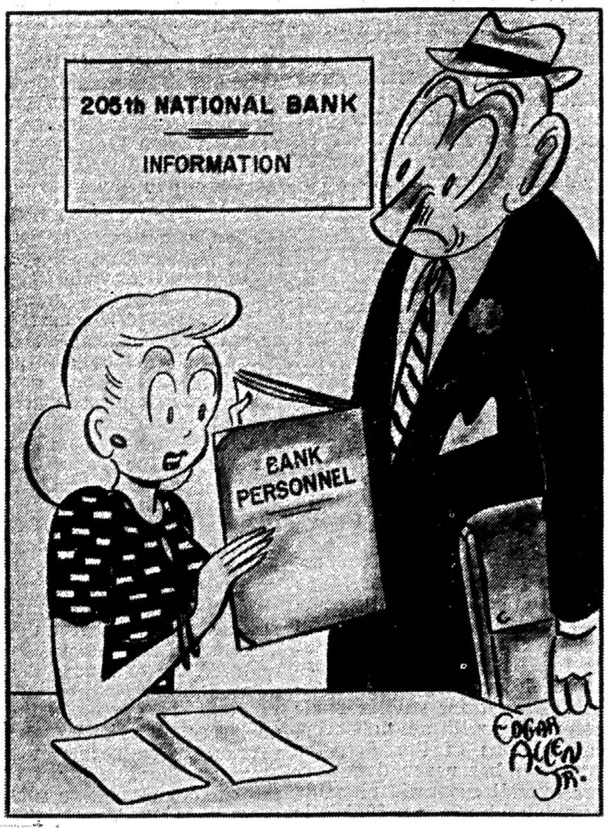
Without some such agreement Iran would have a tough time selling her oil.

**American oil companies with foreign interests are obviously not going to sign any agreement to sacrifice themselves for Iran, with the Justice Department cartel suit hanging over them.**

The State Department, which has not frowned on foreign cartels, is said to be urging the ditching of the civil cartel suit. The Justice Department, on the other hand, is worried over the fact that the demagogues of the Democrats could make so much politically over the abandonment of the suit.

*(This column is intended to reflect the "behind the scene" interpretation from the nation's Capital and may or may not coincide with the "Chronicle's" own views.)*

## BUSINESS BUZZ




**"Pipsnortel?—Hmm-mm!—Oh, here he is—27th floor —it's no wonder I didn't recognize his name— he's one of our Vice-Presidents!"**

## Business Man's Bookshelf

**Columbia University Press Fall-Winter 1953-54**—books to be published — Columbia University Press, 2960 Broadway, New York 27, N. Y.—paper.

**Education for 1984**—Arthur E. Bestor, Jr.—Foundation for Economic Education, Inc., Irvington-on-Hudson, N. Y. — paper — no charge for single copies; quantity prices on request.

**Garage Plans and Ideas:** How to Build a Better Garage—Strand Garage Door Division, Detroit Steel Products Company, 3273 Griffin Street, Detroit 11, Mich. —paper—10c.

**How To Be A Wall Street Financier on $10 a Week**—Donald I. Rogers—in the October 16th issue of "Collier's" (on sale Oct. 2) 15c.

**Limits of Taxable Capacity, The** — Symposium conducted by the Tax Institute—Tax Institute, Incorporated, Princeton, N. J.—cloth.

**Manual of Sugar Companies 1952-1953**—30th edition—Farr & Co., 120 Wall Street, New York 5, N. Y.—cloth—$2.00.

**Philanthropy's Role in Civilization:** Its Contribution to Human Freedom — Arnaud C. Marts — Harper & Brothers, New York City—Cloth—$3.

**Report of the Tin Research Institute:** 1952—The Tin Research Institute, 492 West Sixth Avenue Columbus 1, Ohio—Paper.

**Rich's of Atlanta:** The Story of a Store since 1867—Henry Givens Baker — Division of Research School of Business Administration, Atlanta Division, University of Georgia, Atlanta 3, Ga.—cloth —$7.50.

**Standards We Raise, The**—Paul Mazur — Harper & Brothers, 49 East 33rd Street, New York 16 N. Y.—cloth—$2.50.

**Stock Exchange Official Year Book 1953:** Volume II, incorporating Stock Exchange Official Intelligence and Stock Exchange Year Book—Thomas Skinner & Co Gresham House, Old Broad Street London, E. C. 2, England & 11 Broadway, New York 6, N. Y Price, 2 volumes complete (U. S & Canada) $33.