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EDITORIAL

## As We See It

Neither the snarls that have developed in the plans for settling the Korean affair nor the outbursts of Tito over Trieste were needed to remind discerning observers that mankind is still plagued with social turmoil on all sides. Such is clearly the fact of the matter, and no one who has cut his eye teeth need be told that the task we have set ourselves of getting world affairs in order is a huge, intricate and difficult one—an undertaking, as a matter of fact, which only a few short years ago would have been all but universally regarded as definitely of the Quixotic type.

But whether we presently are adjudged saviors of mankind or merely visionaries whose energies had better have been employed in other ways, we shall do better if we understand clearly the role that we have assayed. It is safe, we believe, to say that it is a task no one in history has ever before undertaken, probably no one has ever thought of undertaking. It is well worth while to bear this fact in mind at all times amid the uninformed if well-meaning clamor of the day and in the presence of the crusade-like psychology so insistently prevalent in so many quarters.

It is often said that we now are wearing the mantle which fell earlier in this century from shoulders of the British Empire. It was the influence, the shrewd maneuvering, and the powerful navy of the British which, so the story goes, were largely responsible for the relatively peaceful era of many decades prior to the outbreak of World War I. This, according to some observers, is now our manifest destiny. We shall not undertake to present the arguments, pro or con, of this rather extraordinary concept, but we do feel it well

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## Business Outlook and the Coming Test of Management

By W. W. TOWNSEND*

President, Townsend-Skinner and Company, Inc., New York City

**After defining important role which management plays in a free enterprise economy, Mr. Townsend gives as formula for starting any business: (1) constructive imagination; (2) courage; and (3) capital. Pictures present business situation and outlook, and warns of saturation point in home ownership and instalment credit. Sees distortion in relationship between lending and saving, and warns credit managers to be on alert.**

First of all, it is necessary to define the role which management plays in a free enterprise economy and to establish very clearly the real difference—which is not merely a distinction—between management and capital, as in the minds of altogether too many individuals today the two are identical.


W. W. Townsend

There is a frequent overlap, to be sure, and in the case of the self-employed, the identity is a fact, but today's economic trinity is not the land, labor and capital of Henry George, as we have learned from experience that land is a form of capital, nor is it the labor, management and agriculture of Eric Johnston, as we know from observation and experience that agriculture is both labor and management, if indeed it is not capital as well.

The difference is rationalized quite simply by the nature of the work performed in each instance and the tools which are used. Labor works with its hands, management with its head and capital with its foresight or judgment. Of these three statements the only one which might be open to ques-

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*From a talk by Mr. Townsend before the 65th Annual Convention of the Massachusetts Co-operative Bank League, Swampscott, Massachusetts, Sept. 25, 1953.

## Adenauer's Victory and European Unity

By MELCHIOR PALYI

**Dr. Palyi discusses outcome of recent German elections and points out Adenauer's victory indicates Germany has foregone lofty ideologies and turned to sound economics. Says Europe is virtually united, but Russia will continue efforts to split Atlantic Alliance, and we are stymied in Europe and Far East while Eisenhower has his diplomatic hands tied behind his back. Sees currency convertibility possible only if U. S. "holds the bag."**

Adenauer's unexpected landslide in the Sept. 6 elections stunned London, Paris and Rome, but was received in Washington with unconcealed satisfaction. Indeed, it is a great victory—for the Eisenhower-Dulles policy of global defense. It broke up the European diplomatic "front" (within the Atlantic front) against America. The Continent's leading industrial nation came out as clearly as could be desired in favor of the American-sponsored European Defense Community which France and Britain were trying to scuttle, or at least to postpone indefinitely. Their moral position vis-a-vis the U. S. A. has been greatly weakened. And our position was further strengthened by the "base-deal" with Spain as well as by Japan's decision to rearm.


Dr. Melchior Palyi

Of the three leading statesmen pleading for a united Europe under U. S. leadership, the other two have vanished this year from the political scene: France's Schuman, the author of the European Coal-Steel Pool, and the Italian Premier de Gasperi. The Chancellor's reelection is a moral victory over Russia.

Germany has accepted the American point of view of all-round defense preparations, no question about that. No doubt either that she did so expecting a quid pro quo: restoration of her sovereignty; continued American financial support; and absolute guarantee against Russian aggression.

The other side of the medal is — that we are now

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**SECURITIES NOW IN REGISTRATION — Underwriters, dealers and investors in corporate securities are afforded a complete picture of issues now registered with the SEC and potential undertakings in our "Securities in Registration" Section, starting on page 38.**

# 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**

*Erie Forge & Steel Corp. 6% Convertible First Preferred*—Stuart M. Beringer, P. W. Brooks & Co., Inc., New York City. (Page 2)

*American Stores* — Armand G. Erpf, Partner, Carl M. Loeb, Rhoades & Co., New York City. (Page 2)

STUART M. BERINGER
P. W. Brooks & Co. Inc., N. Y. City

**Erie Forge & Steel Corporation 6% Convertible First Preferred**

When the general market tone is weak and business prospects appear uncertain, convertible senior issues are turned to by many investors in an effort to minimize risk of loss while maintaining a position from which speculative profits can be realized. The advantages of combining a call on common stock with a prior claim to earnings and assets are well recognized, but in many instances the conversion terms seriously lessen the attractiveness of the security. The obvious points to guard against are a conversion price remote from present market for common, a rapidly ascending scale of conversion prices, and a current yield substantially lower than that obtainable from non convertible issues of similar quality. Lastly, and perhaps most important fundamentally, even if the above pitfalls are not present, a convertible issue should not be bought other than as a fixed income investment, unless the common stock itself appears to be an attractive purchase. With these basic thoughts in mind, let us review Erie Forge & Steel Corporation and its 6% Cumulative Convertible First Prefered Stock ($10 Par Value).


Stuart M. Beringer

This 81-year old company recently completed its most successful year of operation and today ranks as one of the largest independent producers of heavy forgings and steel castings in the country. Its integrated facilities, together with those leased from the Navy, utilize an area of approximately 1,000,000 square feet and provide for the production in its open-hearth furnaces of the special steels which are used in the manufacture of the company's diversified line of products. These products, particularly the forgings, generally require heat treating, rough machining, finished machining and grinding to close tolerances, all according to exacting customer specifications.

The company's customers represent a wide range of industries and include: manufacturers of diesel engines (crankshafts for diesel locomotives and for marine, naval and stationary diesel engine installations); builders of electrical equipment for the power and light industry (rotor and other large shafts for turbines and generators, and water wheels and valve castings for hydro-electric installations); producers of heavy machinery and machine tools (large forgings for power presses and compressors, base and crown castings for power presses and anvil blocks, cylinders and frames for steam hammers); oil producers (drill collars); shipbuilders (line and propeller shafts for naval and merchant shipping); steel works (forging ingots); and manufacturers of equipment for the chemical, rubber, sugar, cement, rock crushing and other industries. The company's forgings range from a few feet to 50 feet in length and from several hundred pounds to in excess of 100,000 pounds, while certain of its castings weigh over 300,000 pounds. Its principal customers are among the leaders in their respective industries and include Allis-Chalmers, American Locomotive, Baldwin-Lima-Hamilton, Bath Iron Works, Dresser Industries, Fairbanks-Morse, General Electric, General Motors, Heppenstall, Newport News Shipbuilding, Pennsylvania Forge, Reed Roller Bit, Westinghouse Electric and Worthington Pump.

For the fiscal year ended April 30, 1953, Net Sales hit an all-time high of $31,430,322, up 12% from the previous year and up 163% from five years ago. However, although pre-tax earnings were a husky $5,718,036, a 72.4% income tax provision held Net Income to $1,578,036. Such earnings were nevertheless 15.7 times current First Preferred dividend requirements of $100,142! Average coverage for the past 12 years (1942-1953) was 9.0 times. As to the First Preferred's balance sheet position, on Aug. 31, 1953 working capital alone (after deducting Long-Term Debt) equalled $19.67 per First Preferred share, while Net Tangible Assets totaled $43.27 per share. Through conversions and the operation of a fixed and contingent Sinking Fund this issue has been steadily reduced from an orginial issue of 200,000 shares in February, 1952, to 166,904 shares on Aug. 30, 1953, thereby greatly strengthening its position.

With the First Preferred available at about 9 (with a 15c dividend on) to yield 6.7%, and with excellent dividend coverage and large asset values lending strong support, it is reasonable to expect that the Preferred should hold up well marketwise regardless of the market action of the Common.

But let us try now to evaluate the Preferred's conversion privilege. Each Preferred share is convertible at any time for the next eight years (until Feb. 28, 1962) into 1.35 shares of Common, thereby providing in effect a call on the Common at $6.67, based on the above price of the Preferred. The average bid price of the Common in 1953 has been 7½ (compared with 6⅜ in 1952) and is now available at about 6. Thus it is apparent that the Preferred is selling unusually close to conversion. The next question is whether the Common is itself attractive at these levels. Earnings per Common share were $1.63 and $1.61 in fiscal 1953 and 1952, respectively, and the current annual 60c dividend provides an exceptionally generous yield of roughly 10%. Although these figures in themselves would seem to justify a higher market price for the Common, they don't tell the whole story. Had there been no Excess Profits Tax, earnings per Common share would have been $2.75 and $2.71 for the past two years, indicating more accurately the Common's true earning power in these years.

As to the future, there can of course be no accurate prediction. Erie is a recognized leader in its fields of operation and, as to the heavier forgings and castings in which it specializes, it has only a few competitors. In fact, Erie is believed to be the largest manufacturer of pressed and hammered diesel engine crankshafts for locomotives. Indicative of the company's resourcefulness and engineering skills which have helped to make Erie a leader in its industry is the fact that it recently designed and constructed at a cost of over $500,000 a giant four-way press capable of exerting 3,000-ton pressure from four directions simultaneously. This revolutionary method will be used in making highest grade forgings for crankshafts, connecting rods and similar highly stressed engine parts having fatigue qualities unobtainable by any other method. In addition to its well-established position in its industry, an additional element of stability is to be found in the fact that Erie leases from the Navy roughly half of its productive facilities at a rental which varies directly in accordance with use. Consequently, unlike most companies in heavy industry whose plant overhead can not be decreased in slack times, Erie can to a certain extent concentrate its operations during such periods on its own machinery and equipment. while maintaining at nominal expense the Navy facilities in reserve until business improves.

In evaluating the future, it must be remembered that during the past two years Erie enjoyed a substantial conversion ingot business, which is not a part of its normal business and which, now that a more normal supply-demand relationship is developing in the steel industry, has been discontinued. Without any pretense to accuracy (which is of course impossible) let us assume that such conversion business contributed $1,500,000 to pre-tax earnings, and that pre-tax earnings from Erie's regular business might drop back as much as 25% from recent levels. Even so earnings per Common share would still be roughly $1.50 with no excess profits tax. Thus, earnings should be well maintained in the years ahead and with the 60c Common dividend apparently secure, a call on Common stock at a price but four times such estimated future earnings might well prove highly valuable.

Summing up, although Erie Common seems a rather attractive high-yielding speculation (based on the likelihood that a good portion of the higher profits of recent years can be retained as business adjusts to a more normal level), the high quality 6% Convertible First Preferred, traded in the over-the-counter market, offers not only virtually the same opportunity for appreciation but also provides strong investment values.

ARMAND G. ERPF
Partner, Carl M. Loeb, Rhoades & Co.
Members, New York Stock Exchange and Other Leading Stock and Commodity Exchanges

**American Stores**

For the timid and weary investor whose faith in the dynamism of the American economy has been shaken by the attempts of the Federal Government to bring order out of chaos and equilibrium in the place of rampant inflation, the grocery chains constitute a nice spot during the period of obscurity which confronts us. Despite the defensive


Armand G. Erpf

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# "We Can Maintain Prosperity If We Do Not Lose Our Heads"

By LEON H. KEYSERLING*
Consulting Economist and Attorney-at-Law
Former Chairman, Council of Economic Advisers

**Maintaining that both short-term and long-term economic outlook is bright, "and can be made very bright by intelligent action," former Presidential economic adviser decries efforts of a "noisy minority" to talk the country into an economic recession. Holds "we have it within our capacity to shape our economic future to what we want it to be." Criticizes forecasts of a serious business decline as based on contradictory and unrealistic beliefs, and lists as factors brightening long range outlook: (1) our production potential; (2) our huge consumer capacity; (3) our high level of capital formation; and (4) the Federal Government's recovery facilities.**

Leon Keyserling

I will begin by presenting my conclusions in capsule form. I think that our short-run economic future—say from now until the middle of 1954 — while it will be marked by some problems of readjustment in some areas, is reasonably bright, and can be made very bright by intelligent action. I think that the long-run economic outlook is excellent if we make the most of our clear opportunities and that, barring a total war, the years ahead within the decade of the fifties can witness in the United States an unparalleled period of economic stability and growth, paced by a rising standard of living for all the people, and providing abundant incentives and rewards to every competent sector of our economic society. And if this can be achieved for the American economy as a whole, it can certainly be achieved in the retail apparel field, which serves the consumer directly, for in our kind of economy in the long run the consumer is king.

I particularly value the opportunity to express these views at a time when a noisy minority, some through ignorance and superstition, others for selfish economic or political reasons, seem to be bending their efforts toward talking the country into a substantial economic recession or depression. If their views should become the prevalent psychology of the country, such a disaster could indeed befall us. Indeed, this unwholesome attitude that a pronounced business downturn is inevitable, or even desirable for a while, is our greatest threat on the economic front. We can overcome this threat by looking squarely at the facts, and by responding sensibly to them. Since this meeting is being sponsored by a dynamic and forward-looking factor in the hat industry, I might say to you that you can sell more and more hats if we do not lose our heads.

### A Basically Optimistic Outlook

A few days ago, I told one of my friends that I was basically optimistic about the future, and he said that this meant little because I have been optimistic many times before. It is true that during my six and a half years on the Council of Economic Advisers, my 13 successive semi-annual forecasts were fundamentally optimistic, despite the encircling gloom of the pessimists who have always seemed to think that a depression was just around the corner. My 13th optimistic forecast was at the start of 1953, and since I did not come a cropper despite the unlucky number, I hope and pray that I may now be right once again.

Seriously, my basically optimistic outlook is not really in the nature of a forecast at all, if a forecast is intended to convey the idea that we in the United States can do no more than guess what is going to happen due to forces beyond our control, and then bow to the dictates of some impersonal fate. On the contrary, I believe that we have it within our capacity to shape our economic future to what we want it to be. It is my belief that, since a generation ago, there has been a profound advance in our understanding of economic problems, and that despite the many imperfections which still remain, we have the private economic tools and the public economic tools to maintain and advance high level prosperity if we use these tools with thoughtful vigor.

And when we take account of world conditions, we cannot afford to do less. We cannot afford to cling to the superstition that we are the victims of inexorable economic laws, which will throw us for a loss from time to time despite our best efforts. Our mortal enemies, the Soviets, are not fatalistic in this sense. They are applying positive efforts to building up their military strength and their economic strength as an ever-increasing challenge to the free world. I reject the false notion that only the slave states can proceed on the theory that they are the masters of their own destinies. I believe that we who love freedom and are determined to

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*An address by Mr. Keyserling at the Sales Conference of Frank H. Lee Co., hat manufacturers, New York City, September 29, 1953.

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# Trust in Oil

By IRA U. COBLEIGH

*Author of "Winning in Wall Street"*

**An up-dated look at undoubtedly one of the more glamorous and more volatile of those shares recording their assorted altitudes each day on the New York Stock Exchange — Texas Pacific Land Trust.**

Texas Pacific Land Trust or TXL, as it is known to its "aficionados," has fascinated traders, investors and patient millionaires for more than a quarter of a century, and it would be silly even to suggest that its attractions have faded with the years. Far from it, for today, TXL may be entering into a new dynamic phase, which the informed viewer of the equity market should certainly tune in on.

Ira U. Cobleigh

Let's go back a bit, say to 1888 —the year of the Blizzard in case you've forgotten! That was the year in which Texas and Pacific Railway formed Texas Pacific Land Trust to acquire title to certain lands it (the railroad) had received as grants for pushing its tracks out over the West Texas Prairie. TXL thus started out with quite a swath of real estate — 3,450,000 acres in all. It didn't seem very valuable land at the time; just cattle, sage brush, cactus and cowboys on it. So the trustees kept selling off, bit by bit, from this prairie pasturage till along about 1924, when they still had left almost 2,000,000 acres —a hunk of land somewhat larger than the State of Delaware. Well, they still have this hunk, and it's a mighty good thing, for oil was struck in West Texas in the twenties and TXL has been living high on the derrick ever since.

### Royalty Payments

With the policy of selling off land virtually discontinued, the trustees have since devoted their energies to leasing trust lands to oil operators, and collecting royalties on the petroleum produced. This has paid off, and expanded gross income from $350,000 in 1935 to $8,900,000 for 1952, the best year in TXL history. The character of individual leases has also, through the years, been upgraded to the great benefit of the Trust. The standard royalty used to be a 1/8th interest; but TXL now has a number of agreements calling for 1/6th, and as high as 1/4th. The Trust has often received cash bonuses, in addition, when leases were signed, and frequently an extra interest in future oil production. Contingent future oil payments of this sort now are recorded in the Trust's books at over $12 million.

Just because TXL is collecting around $9 million a year, mostly in oil royalties, you might think its gross potential had been pretty well maximized. Well it hasn't—for on the Trust's 1,971,231 acres there were (12/31/52) only 992 producing wells (bringing in 1½ million barrels a month) on, totally, about 30,000 acres of Trust land. That's not 2% of the whole tract. What about the other 98%? Huh? How much would TXL be worth if oil were recovered on, say, 10% of its land?

Trust incomes were slowed down a bit this year due to the shutdown of the Sprayberry field, to prevent gas wastage. This shutdown is only temporary, however, and in any event the oil is still there.

### Pasture Rentals

Of course, too, this land can have some other use than just for oil drills. It's good for grazing, and $152,000 was collected for pasture rental last year. And—who knows—some day on Trust holdings there might spring up another Dallas or Waco. This remote possibility would certainly not adversely affect land valuations or share prices. In an inflationary economy just plain land is not a bad thing to latch onto, if you don't pay too dearly for it.

On that score, there are about 1.4 acres for each share of TXL selling at 104; so you can see how much the land price tax is. And, speaking of share price, you'll be interested to know that you could have bought TXL at 7¼ just 10 short years ago; or paid 195½ for it in March of 1952. And what we're talking about are really sub-shares—the result of a 100 for 1 split in 1926 of the original trust certificates. There are still 2,421 of the old "Certificates of Proprietary Interest" kicking around. Guess the holders just didn't bother to turn 'em in. At any rate, the careless or neglectful holder didn't suffer — these old sheets of paper are still worth over ten grand apiece. Total new trust shares now outstanding (including division of old certificates) would be 1,393,589.

### Share Redemption Policy

So much for stock prices — what about cash dividends? They haven't been fancy—30c out of 98c a share earned in 1946; moving up to $2.95 out of $3.27 earned for 1952. So you don't buy TXL for its yield. There was, however, a special gimmick in the picture for a number of years—a share retirement program. Until 1952 it was the custom to apply monies (roughly equivalent to the 27½% depletion allowance for tax purposes) to buy in, and retire, sub shares on the open market. This policy had two benefits for shareholders: (1) It stabilized and improved the market and (2) it constantly fattened the equity of remaining shareholders. Essentially it was a technique especially acceptable to persons of large means. In this manner, from 1946 through 1952, 168,600 shares were retired (at an average price of below $55 a share). Since buying by trustees stopped some time ago, their support has been rather noticeably missed, especially in the markets of recent months; and the shares now sell where they did in May 1951.

While we're on the subject, let's talk about the trustees. There are three of them, Mr. George C. Fraser, Mr. George L. Burr, and Mr. John K. Olyphant, Jr. They operate the trusteeship and require but a slight staff of not more than a dozen to collect incomes, keep the books and make reports, calculate and disburse taxes. But a trusteeship, however low in operating cost, does have certain limitations. Traditionally it is more devoted to protection of principal sum, and prudent administration of the trust estate than aggressive development of property, and dynamic expansion of its earning power. For these reasons, certain important owners of TXL have urged that if TXL could become a corporation, then instead of merely getting fractional royalty checks from its land, it could secure the entire net proceeds of oil produced. Further, since TXL holdings lie astride one of the most desirable proven oil areas in the U. S., the risk of drilling is minimized. With a dozen of the best oil companies now drilling and exploring on TXL land, east and west of the Pecos, and an important recent strike by Honolulu Oil in Nolan County (where TXL has 12,000 acres), the idea of this fabulous Trust drilling for its own account makes a lot of sense.

### Recapitalization Plan Suggested

So here's what's being considered:

(1) The creation of a new Delaware Corporation—an oil company that is.

(2) The transfer to this new company of some $6 million in cash, and the present mineral rights of TXL.

(3) Maintenance of the Trust as strictly a land owning outfit with about $500,000 in cash, 1/128th interest in now producing lands, and 1/48th in future oil takes.

(4) Delivery to present owners of TXL of four shares of new oil company stock for each Trust share held.

If or when such a recapitalization as above outlined may emerge, TXL, the trust, could go back doing business at the same old stand, selling land and applying the process of financial osmosis to its outstanding shares. And the oil company, with appropriate management might turn out to be a quite impressive producer. Few American drilling companies operate over such an extensive area of proven petroleum pasturage.

You'd never guess, just by watching TXL on the tape for the past couple of months, that anything so dramatic as a five for one split or the creation of an independent oil production company with a fabulous potential, is on the horizon. Why, the stock today displays all the enthusiasm and bounce of a Dodger fan drearily deploying to the nearest subway from the pitiless portals of Yankee Stadium! However, keep this in mind—through the years the way to contentment and capital gains has been by buying and holding —not selling—TXL. It's had its sinking spells, of course, but it has evidenced also an amazing capacity to make a new high!

Lest you think that TXL is a very special sort of equity known and owned by few, consider that one of the most respected of our investment trusts is a substantial holder and its commitment was made within the past 18 months; and the names of a number of men, somewhat renowned for their security judgments are to be found on the list of certificate holders.

For market virtuosity, for unusual vistas of profitability stretching far into the future, and for the land's sake, you may want to delve further into TXL — a symbol for land and a trust in oil.



# Observations . . .

By A. WILFRED MAY

## Market Divergence Through 1953

The divergence in the stock market's movements, cited by this column in the past, is becoming ever more pronounced.

The record of the first nine months of this year in continuing the invalidation of the concept of a "the" market is vividly demonstrated in a hot-off-the-griddle study by Harold Clayton of the New York Stock Exchange firm of H. Hentz & Co. While "the market" as a whole, as measured by Standard & Poor's composite stock average (480 issues) has declined 10%; 186 individual issues have *risen*—124 of them by amounts ranging up to 10%, and 64 issues by 10 to 104%; while 831 other issues have *dropped*—283 of them by amounts up to 10%, and 548 issues by from 10 to 50%.

A. Wilfred May

### 1953 Crazy-Quilt

The divergence has remarkably occurred even within individual industries as well as the market as a whole. Thus, in the amusements and amusement supplies group, Lionel, U. S. Playing Card and Madison Square Garden have advanced 11, 6, and 2% respectively; while Bell & Howell, Brunswick Balke, and Decca have declined by 25, 14 and 5% respectively.

In air conditioning, Carrier Corporation has advanced, while York Corp. has registered a net decline.

In the apparel category, advances have been scored by Real Silk (104%), Phillips Jones (28%), Phoenix Hosiery (10%); while the following have registered declines: Gotham Hosiery (32%), Adams Millis (24%), and Goodall Sanford (32%).

In aviation, Bendix, Fairchild, Republic, Northrop and Douglas have risen; while Beech, Grumman, and Thompson Products have suffered sizable losses.

In bus and taxi transportation, National City Lines and Omnibus Corporation have risen; while New York City Omnibus and Chicago Yellow Cab have been falling.

Among the can stocks, Continental has gone up, National down, and American sideways.

In the Chemicals, du Pont, Interchemical, and Spencer have gone up, while the others have been falling.

In heavy construction Merritt-Chapman has risen 13%; while the other two have been falling: Central Foundry by 27% and Thompson-Starrett 38%.

In the drug group, Vick, Lambert, and American Home Products have advanced; in the face of sizable falls in Bristol Myers, Merck, Abbott Laboratories, and others.

In the foods, Ward Baking, Continental Baking and Sweets Co. have advanced; while General Baking, Hershey and National Dairy have fallen.

### Divergence Between Industries

And we find that such irregularity affecting individual industries has likewise occurred in past years.

And non-uniformity in the timing of the popularity of *industry groups* has likewise taken place. Ethical drugs, chemicals, rayons, sugars, metals are now selling 25 to 60% below their 1951 highs (the postwar peak), against a decline of but 4½% in the composite average. Other groups, including oils and rubbers, did not reach their peaks until late 1952 or early this year.

The following groups are lying fallow substantially below their 1946 highs, against a concurrent rise of 25% in the Dow Jones Industrial Average:—Tobaccos, utilities, foods, food chains, dairy, banks, baking and biscuit and communications.

Thus, divergence still rules supreme! What lesson therefrom? Merely that attempts at timing the-market-as-a-whole are meaningless; and that successful selection of particular issues is in any event also difficult. Mere obeisance to "selectivity" in market advice—with hindsight demonstrations—furnishes no aid in forecasting the future movement of particular issues or groups.

# The State of Trade and Industry

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

A fractional decline was noted in total industrial production for the country-at-large in the period ended on Wednesday of last week. It remained, however, above the level of a year ago.

Layoffs in some durable goods industries continued to be reported, but these were offset by increased employment in non-durable goods industries. Order volume reflected a somewhat higher level than in recent weeks, Dun & Bradstreet, Inc., states.

Despite a moderate decline in the fourth quarter, the steel industry is a cinch to break its best previous production record by a wide margin this year, states "The Iron Age," national metalworking weekly, this week. Barring unexpected trouble, total production this year should come very close to 112,000,000 net tons of ingots and steel for castings, it asserts.

That would be about 7,000,000 tons higher than the industry's best previous record of 105,200,000 tons poured in 1951. It would be nearly 19,000.000 tons higher than last year's output which was held to 93.200,000 tons by a 54-day strike.

The fourth quarter decline in steel business has been greatly over-rated by some of the so-called experts. While some of them were crying "wolf" at the dire things they saw in their crystal balls, the steel industry was taking an inventory correction pretty much in stride, this trade authority declares.

Outlook now is that fourth quarter business will be only a shade below third quarter. This optimistic forecast is based on the fact that cancellations of orders have already hit a peak and are now declining, it further states.

Inventory correction appears to be over the hump, although some consumers will continue to regulate their stocks over the next several weeks. Far from being discouraged by these adjustments which they knew must come sooner or later steel officials are happy they have been able to absorb them with a minimum decline in operations, it continues.

Cutbacks of some inventories may have been sharper than was justified. This is indicated, it points out, by a few cases where new shipment orders have been received after old orders were canceled or ordered held up.

Prospects for steel business in the early part of next year are bright. But if business is good it will be at a price. The United Steelworkers of America is carefully mapping out a program of economic gains to present to steel companies before most of their contracts expire in their entirety June 30, "The Iron Age" reports.

It would be almost a miracle, it states, if a completely new contract could be negotiated without at least a threat of strike. Good steel business would strengthen the union's hand. And the stronger the union's hand, the greater will be the threat of steel production losses because of strikes.

So the union will watch economic developments closely before it reveals its demands. But it is known to be building a case for at least four big economic gains—in addition to other contract changes.

High on its list of demands, this trade journal notes, will be a boost in pensions from present $100 per month for 25 years' service to $150 per month; union officials are determined to top the $137 per month won by autoworkers; improvements in social insurance; guaranteed annual wage—this may again be traded off for gains in pensions or social insurance, but there'll be a lot of noise made over it; and a cents-per-hour wage increase—size of demand to be determined by economic conditions.

A big mystery in metalworking was cleared up this week when steel scrap prices rebounded in several important market areas. The mystery had been "How could scrap prices take it on the chin for 10 consecutive weeks when nothing worse than a moderate decline was in sight for steel?" The answer seems to be that highly volatile scrap prices are too sensitive to be an accurate barometer of steel business ahead. When viewed with other market factors they may prove helpful in forecasting steel business, but they do not always predict steel business accurately, concludes "The Iron Age."

In the automotive industry last week car output rose about 6% to 118,130, from 111,304 in the preceding week, according to "Ward's Automotive Reports." In the year-earlier week it was 99,974.

The main reasons for last week's rise, states this trade authority, were gains scored by Ford, Chevy, Chrysler, Plymouth, Mercury and Oldsmobile.

Chevrolet and Ford, it points out, are still dueling for first place in the auto industry—a fact that keeps auto output rolling high for a time of the year when the pace usually slackens.

Between them, these two makes now are accounting for about 50% of weekly car production. Again this week they should keep car output fairly high—about the same as last week—but about 18% off the fast runs of just last July, it notes.

The battle between the auto titans is giving more and more credence to rumors of mergers between independents, it continues, adding that it is generally concluded the salvation next year of some independents depends on whether they can consolidate their operations to face such market onslaughts.

### Steel Output Scheduled at Slightly Lower Rate

The cost of steel to the consumer is on the way down. How far it will go will be determined by how much steel producers have to strive for business, says "Steel," the weekly magazine of metalworking the current week.

The biggest new step to lower the cost of steel to consumers is the steel companies' broad move to absorb some of the freight charges for delivering steel to buyers, states this trade weekly,

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# The Job We Are Doing

By RALPH H. DEMMLER*

Chairman, Securities and Exchange Commission

**In first address as SEC Chairman, Commissioner Demmler traces background and purpose of the Investment Company Act of 1940, which he calls "a complicated statute." Discusses SEC rule-making powers and future plans. States "We have no intention of scuttling the ship that we're hired to steer," and reveals purpose to reexamine SEC rules and forms. Points out SEC is an agency of an Administration "dedicated to less government, not more." Stresses maintenance of investors' confidence as of fundamental concern to national economy.**

Since the Securities Act, the Securities Exchange Act, the Investment Company Act, and the Securities and Exchange Commission are all part of the climate in which you must do business, it may not be amiss to talk about the why and how of Federal regulation of the investment company business.

Ralph H. Demmler

The Commission, as you know, first appeared upon the scene in 1934. Then investment companies were treated just like any other issuers of securities. If they wished to sell new securities or if any issue was registered upon a national securities exchange, they were subject, like everyone else, to the Securities Act and the Securities Exchange Act. In 1935, the Congress directed the Commission to make a study of your industry. Fresh in the minds of the nation was the memory of heavy losses suffered by investors, partly because of general economic depression, partly because of abuses which had permeated the capital markets.

The studies of the investment companies undertaken by the Commission proved to be an example of cooperation between government and the financial community. Ultimately, the recommendations for legislation bargained out by the Commission and the industry were embodied in the Investment Company Act of 1940. This legislation was ultimately endorsed by both the persons for whose regulation it provided and the regulatory agency which was to be charged with its administration. It provided regulation without the death sentence of the Public Utility Holding Company Act. It was passed without a dissenting vote in either House of Congress.

Parenthetically let me suggest that, since the industry succeeded in limiting Federal regulation of its business to an Act with far fewer teeth than the Public Utility Holding Company Act, it is all the more important that investment companies recognize great responsibility in preventing new abuses.

### Background of the Act

In the 13 years since 1940, the Act has not been amended and there have been relatively few changes in its administration. This would, therefore, seem an appropriate time to review its purposes, its operation, and the progress made toward elimination of the abuses it was designed to correct.

The abuses consisted, in general, of management of corporate affairs so as to benefit insiders and affiliates to the prejudice of the investor. For instance, dealers used controlled investment companies to increase their securities business; insiders acquired securities and sold them to investment companies at a higher price; investors were switched from one company to another to provide extra commissions; camouflaged and grossly excessive selling commissions were charged; many companies maintained inadequate reserves; finally, but by no means least important, control of investment policy was shifted from one person to another or the investment policies were shifted from one direction to another without the consent of public security holders.

In a field so highly technical and complex, I suppose the law had to be technical and complex. At any rate, it is a complicated statute. But in all major areas it seems to have accomplished its purposes. We have had no major investment company bankruptcy since 1940. I am not prepared to present statistics on the performance of investment companies as distinguished from a composite of market performance. Such statistics would not be particularly helpful in any event since the investor does not buy the securities of investment companies as a whole but the securities of particular investment companies.

Fortunately, the Commission has seldom been compelled to use its disciplinary powers under the Act. This is a tribute to the cooperative attitude of the industry. Regulatory legislation can set guide posts, but it is no substitute for self-control.

It is important that the industry continue to exercise this self-control. Investment companies have recovered the ground they lost in the thirties. In 1929 they were being created at the rate of almost one a day. The public had invested in them almost $7,000,-000,000. Then came the crash. Fifty per cent went out of existence by 1940 and investors in bankrupt companies had lost 90% of their investment.

The tide has turned, however. In the last few years there has been an enormous flow of money into these channels. Total assets in the hands of investment companies have increased almost five-fold since 1940. This is due partly, of course, to the fact that aggressive selling is stimulated by sales commissions for investment companies' shares which are relatively higher than brokerage commissions or spreads or concessions on underwritten securities or profits on securities bought or sold by a dealer as principal.

This growth evidences public confidence. But that very confidence imposes a correlative duty and responsibility to sell investment company securities and to manage investment companies with the investors' interest as the paramount consideration. That is good business as well as good salesmanship.

### Purpose of Investment Company Act

The Investment Company Act of 1940 is designed to protect the public interest and the investors' interest. It provides not only for disclosure but also for the regulation of specific types of transactions, particularly those involving an absence of arms length bargaining. Much of the Act is a chart of permitted and prohibited practices; other parts provide for reports to the Commission; and still other portions confer quasi-legislative and quasi-judicial powers on the Commission. Whatever you may think of it, therefore, your business and the Commission's work are pretty well interwined.

This however, is not going to be a section by section description of the Investment Company Act. Suffice it to say that the Act has two basic aims—adequate disclosure and fair dealing.

Since the Act is complex, the Commission and your industry must of necessity do a lot of work together. We are testing cooperative methods in the policing of supplemental sales literature.

In 1950 the Commission issued a Statement of Policy, prepared with the assistance of the National Association of Securities Dealers, which is designed to advise investment companies, underwriters and dealers as to the types of advertising and sales literature which may not meet statutory standards.

The NASD, as a private instrumentality for self-regulation examines all supplemental sales literature, usually before it is distributed. If it does not comform to

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*An address by Commissioner Demmler before the Fifth Annual Mutual Fund Conference, Boston, Mass., Oct. 7, 1953.

# Unfinished Business of The Automobile Age

By JAMES COPE*
Vice-President, Chrysler Corporation

**Asserting the health of government finances is directly related to the general health of business because the ultimate source of tax revenues comes from business, prominent auto executive points out a strong, dynamic Federal Government is essential to nation's economic well-being. Calls for tax reductions on business, especially on excess profits, capital gains and elimination of double levies on dividends. Favors program of rebuilding blighted city areas and construction of more and better highways. Is optimistic regarding auto industry's future.**

Viewed from one aspect, this is unquestionably the Air Age. The airmen, who now have celebrated their 50th year of flight, have literally remade the dimensions of the world. They have chalked up an almost limitless list of of betterments to our living —they have drastically affected political and other institutions, and have wiped out for all time, the security of distance. Exponents of electronics have a claim to domination of our times. We could spend all night reciting ways in which they have modified the labor of the world, and by morning someone would come in with something new. On one side they shake the entertainment supremacy of Hollywood, causing millions of people to stay home evenings who never enjoyed doing so before; on another they aim at us, or for us, strange and unbelievable missiles of destruction which make jet planes and bombers bearable prospects by comparison.


James Cope

Then the chemists have their claims, and beyond them the Nuclear physicists. Unquestionably, the Atomic Age is a measure of the times of man, a portent of changes to come that is still beyond our comprehension.

All these great forces are with us, mending our habits of life, our attitudes and actions so surely and so constantly that we have to stop and reflect if we are to measure the changes they have brought us.

Yet, against these I hold with assurance that the truly dominant tool of our times is the automobile, along with its satellite fleet of internal combustion power devices, but essentially the car itself — the four-wheeled personal carrier.

This is not said out of sheer local Detroit enthusiasm, or out of concentration on our own affairs and the fortunes of our home community. I myself could perhaps be pardoned for giving the automobile extreme importance, since my life is linked with the company which, while not the biggest in the industry, does have the unquestioned distinction of shipping more completed cars out of this motor capital, Detroit, than all other companies together.

Yes, we occupy that role, and while we are not the city's biggest taxpayer we are close enough to that unenviable distinction to have profound feeling of involvement and interest in all the fortunes, hopes and aspirations of this teeming community.

A sidelight on our Detroitism is that for many years we had to wage, with few allies except for five or six companies in our identical position, a fight against one of the strangest discriminations to be found, I believe, anywhere in the business system: a freight rate structure designed to give an enormous advantage to every assembly plant spotted well away from this or any other home base of automotive production. The biggest auto shipping point in the world has carried a freight handicap of great size on finished vehicles. After many reverses we finally won a halfway correction. It is less visible than it should be because of the succession of freight rate increases which have accompanied the general escalation of costs in recent years. But, at any rate, the partial victory won as little public notice as the fight, although I believe it has been quite a factor in keeping Detroit as big an automobile center as it is.

We do not have to rely on the universal feeling that the center of the world is the spot where you or I stand, to rank the automobile first as a social force as well as an economic force of our times, and to think of this particular moment as a way point in the Automobile Age.

**Highway Transportation Industry**

A Brookings Institution study contains the statement that the highway transportation industry as a whole is "the greatest single combination of economic activity in man's history."

That in itself might lay claim to naming the Age, but it seems to me we have to look behind the combination of economic activity to the wants of people that made it possible.

We have to look to a very simple thing, but one of almost limitless scope. Possession of an automobile, among us now is a privilege open to just about every person willing and able to earn a little money. Yet that possession constitutes a taking hold of liberty—an act of freedom—a mastery by the individual of a hugely multiplied alternative of choices — choices in everything: where we live, where we work, where we play, where we buy, where we go, where we stay.

Every car owner can, if he wishes, change his life, tomorrow. It is almost as simple as the act of turning the steering wheel. A wish to go where more interesting work is reported to exist; a yen for a change of climate; a desire to raise the kids in the country, or just to raise some vegetables, can be served by any automobile, plus a very little gumption.

In the thirties, we saw the tremendous migration of families away from the dustbowl. In the war we saw an even greater migration of energetic workers to new war plant locations. But around us every day and in every person we see the breaking of an old bond of distance.

I am indebted to Fred Black for recalling to me that back around the turn of the century that prolific writer and thinker H. G. Wells busied himself at one time with the problem of the growth of cities. What would be their limit? He concluded it would be computed in terms of transportation, because observation convinced him that man would not travel much more than an hour from his house to his work. Most of us think that is much too long, but Wells was not thinking in terms of luxury choice—rather in the endurance of human willpower even under considerable economic pressure.

Now we all know that the practical range on foot is four miles an hour. Some can hurry faster, but a mile in 15 minues is good walking for people who want to be in good physical condition at destination.

Thousands of generations of mankind operated in relation to that limit. They set the horizons within which they lived and died on a circle which rarely exceeded the distance that could be walked in a few hours—perhaps a return trip that could be made between dawn and dusk.

Millions and millions of people never moved more than 10 or 20 miles from the place where they were born.

And just incidentally, the greater part of the human race existing today, still is subject to that same limitation. Of course the automobile is not the only means of enlarging the circle. All the media of mass transport break that limit thoroughly, but the courses that they offer are fixed ones, with little variety and not much freedom — even Moscow boasts its subway.

What the present representative mileage radius in this country is, I don't know. If Wells' assumption of an hour's travel distance from bed to place of work holds good, it must run to some 15 or 20 miles in congested areas, and perhaps to somewhat more than double that where better time can be made. I believe that squares roughly with average annual mileages of cars. Beyond that, the circle for exploration or for transplantation is measured in hundreds and even thousands of miles, and it is being put to use by greater numbers of people every day.

These facts of personal freedom have social and political significance and economic significance of great scope, far exceeding our usual thought of them. The mingling of dissimilar populations, the ready escape made available from poor community conditions, the enlarged competition enforced on the merchant, are just examples of the force that the gasoline engine applies to our world quite constantly.

This is in our world of the United States, and increasingly in

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*An address by Mr. Cope before the Detroit Chapter of the National Association of Cost Accountants, Detroit, Mich., Sept. 23, 1953.



# *From Washington Ahead of the News*

By CARLISLE BARGERON

The appointment by Governor Lausche of Ohio, of Mayor Thomas A. Burke of Cleveland, to the Senate to take the place of the late Senator Taft, and with the condition attached that he is not to upset the Republican organization of the Senate, reflects the dilemma in which many upstanding Democratic politicians find themselves.

Lausche is a Democrat of the old school, not a Truman Democrat. He has never played ball with the organized labor bosses which does not mean that he hasn't been "for" labor, the man who works with his hands. Therefore, he has never played ball with the Democratic machine in Ohio which, under Roosevelt, came into the hands of the organized labor bosses. In every primary in which he has ever run, if this writer's memory serves, he has had the opposition of both the labor bosses and the Democratic machine. Yet he has always won handily both in the primary and the subsequent election.


Carlisle Bargeron

Republicans of Ohio vote for Lausche, Democrat, because he has made a good Governor. Similarly, Democrats have voted for Bricker, Republican, both as Governor and as Senator. But the two men are quite different in their political philosophies and in their approach to politics. Back in the old days before Roosevelt turned the world upside down, Bricker was a Republican with all of its connotations. Lausche was a Democrat with all of its connotations. There could have been found a division between the two men then. But in the years in which they have been on the political scene together, the ruling influences of Ohio have so worked it out that they would never be pitted against each other. It has been a considerable speculation among Washington political experts as to which one would win in a battle between them. It would be an unhappy choice. Yet one is a Democrat, the other a Republican. This would have made quite a difference 20 years ago. Today, they are one and the same in their opposition to a return of the New Deal.

In this respect, many Democratic politicians find themselves in the same position today. They don't have a companionable relationship with the Republicans, don't like their smugness, their dullness, their complacency and self-righteousness toward the problems of the day. Their constituents don't like it either. These Democrats would have an awful time explaining they had embraced Republicanism; yet they would have just as bad a time opposing the Eisenhower Administration and advocating the return of the New Deal. Such is the influence and curse of political labels.

Lausche was in this position in the appointment of Taft's successor. Certainly he could not have been expected to name a Republican. That would have been too much for the Democrats who have always supported him. These people expected him to be a Democrat, all right, but not a New Deal Democrat.

Apparently the man sweated it out for many months. Indeed, he seems to have been pushed into the appointment through the court action of a Republican politician. Thus pressed, he came up with a man on the condition that this man, in effect, serve as a Democrat but vote as a Republican; at least as a Republican on organization of the Senate. On other matters, Eisenhower seems about as dependent upon the votes of real Democrats as he is upon Republicans anyway. So the new appointee, Burke, may be expected to be with him perhaps more often than Republican Milliken, of Colorado, for example.

You wonder about this business of Democratic Governors appointing Senators to serve, in effect, as Eisenhower Republicans. Just as you had Republicans hanging onto the coattail of the Democrat, Roosevelt, in his hey day, now the trend is toward Democrats paying obeisance to the Republican Eisenhower. Apparently, too, notwithstanding that the Republicans have shown hesitancy in going the whole route with their standard bearer, he is to be their great selling point in the Congressional campaign elections next year. Republican candidates who have not been enthusiastic about him at all, it looks now, intend to sing his praises to the sky as a means of getting reelected.

It is a tremendous temptation to a man to tighten up his power, with both Democrats and Republicans seeking his political handclasp. It would seem almost inescapable that he would succumb to this temptation. But you have an unusual situation, I am inclined to believe in Eisenhower, a man formerly used to the dictatorial power of the military.

A British commentator has just written some rather caustic comments about him. Nearly all of them impress me as having come from an irresponsible man. But there is one that intrigues me. When this writer said that Eisenhower is lazy, I believe he may have something, and in view of the political pressure to make him another dictatorial Roosevelt, this is good. Very good, indeed.

NEW ISSUE

## $150,000,000

# NEW JERSEY TURNPIKE AUTHORITY

## 3⅜% Second Series Bonds

**(Series B)**

Dated July 1, 1953 Due July 1, 1988

Principal and semi-annual interest (January 1 and July 1) payable at The National City Bank of New York, New York, and at The National State Bank of Newark, Newark, New Jersey. Coupon bonds in the denomination of $1,000, registerable as to principal only, and registered bonds in the denomination of $1,000 or any multiple thereof, coupon and registered bonds to be interchangeable.

These Bonds may be redeemed prior to maturity as a whole otherwise than by operation of the Second Series Sinking Fund at any time on or after July 1, 1958 on not less than 60 days' published notice or as a whole or in part (by lot), by operation of the Second Series Sinking Fund, on any interest payment date on or after July 1, 1956 on not less than 30 days' published notice at the following prices and accrued interest to the date fixed for redemption:

| *Period* | *Redemption Price* For Sinking Fund | *Redemption Price* Otherwise |
|---|---|---|
| July 1, 1956 to and including June 30, 1958 | 103% | Non-Callable |
| July 1, 1958 to and including June 30, 1963 | 102½ | 103½% |
| July 1, 1963 to and including June 30, 1968 | 101½ | 102½ |
| July 1, 1968 to and including June 30, 1973 | 101 | 101½ |
| July 1, 1973 to and including June 30, 1978 | 100½ | 100½ |
| July 1, 1978 and thereafter | 100 | 100 |

*Interest exempt, in the opinion of Bond Counsel, from all present Federal Income Taxes, under existing statutes.*

*Under the New Jersey Turnpike Authority Act, the Bonds are legal investment in New Jersey for the State of New Jersey and all its political subdivisions, departments and agencies, and for savings banks, trust companies, insurance companies, trustees and other fiduciaries.*

THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK, *Trustee*

These Bonds are to be issued to provide moneys for the construction of the Newark Bay - Hudson County Extension of the Turnpike, for the refunding of $30,000,000 outstanding Second Series Bonds (Series A), and for certain expenditures in connection with the Turnpike.

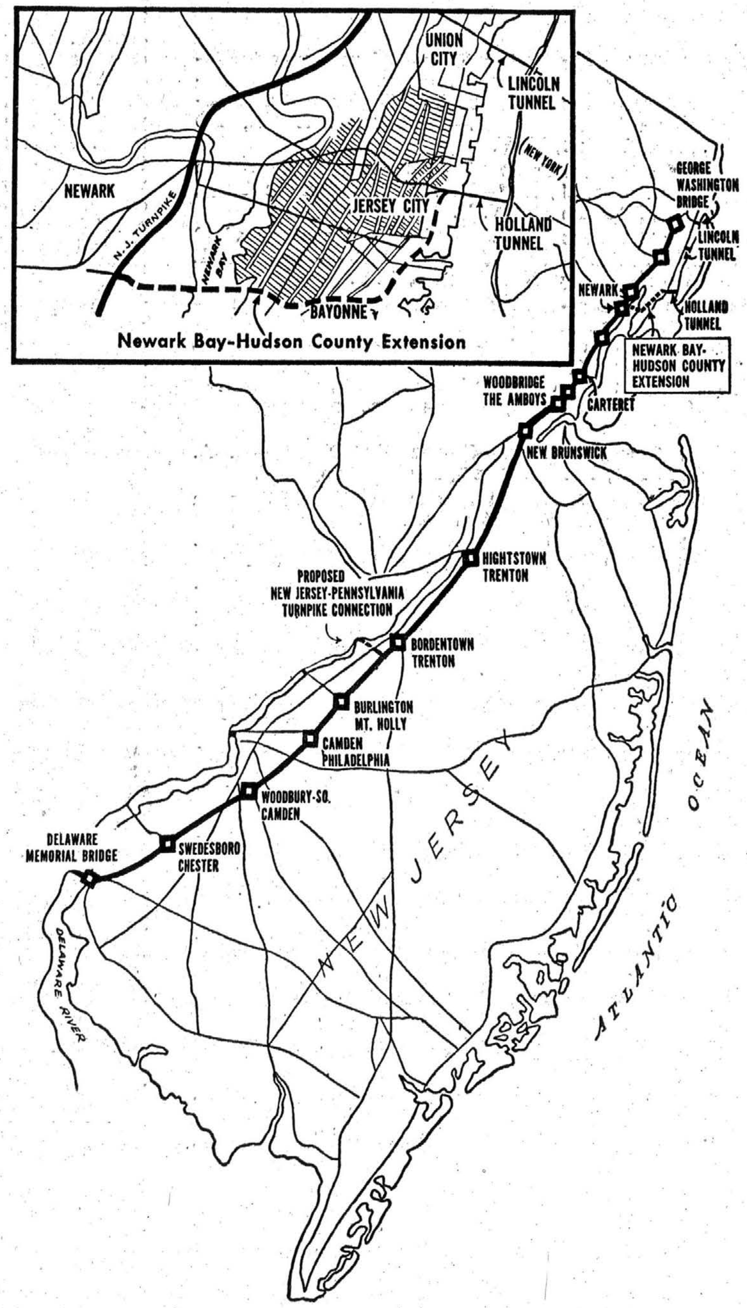
The Act authorizing the issuance of the Bonds provides that such Bonds shall not be deemed to constitute a debt or liability of the State of New Jersey or of any political subdivision thereof or a pledge of the faith and credit of the State of New Jersey or of any such subdivision. The Bonds are payable solely from the tolls, other revenues and proceeds of the Bonds pledged for their payment pursuant to a Resolution of the New Jersey Turnpike Authority dated October 14, 1953.

**Price 99.50%, to yield approximately 3.40% to maturity**

(Plus accrued interest)

*These Bonds are offered for delivery when, as and if issued and received by us, and subject to the approval of legality by Messrs. Hawkins, Delafield & Wood, New York City, Bond Counsel to the Authority. Delivery in temporary form is expected on or about November 10, 1953.*

*Offering of these Bonds is made only by means of the Official Statement, copies of which may be obtained from such of the undersigned as are registered dealers in securities in this State.*

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October 15, 1953

# Dealer-Broker Investment Recommendations & Literature

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

**Bank Stock Earnings**—For the nine months ending Sept. 30, 1953—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

**Drug Stocks**—Study—Kidder, Peabody & Co., 17 Wall Street, New York 5, N. Y.

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

**Local Notes**—Data on Kentucky companies—The Bankers Bond Co., Incorporated, Kentucky Home Life Building, Louisville 2, Ky.

**Natural Gas Industry**—Analysis with special reference to **Columbia Gas System, Inc., Colorado Interstate Gas Co., Mississippi River Fuel Corp., Northern Natural Gas Co., Panhandle Eastern Pipe Line Co.**—Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

**New York Banks & Trust Companies**—Comparative figures on 18 banks as of Sept. 30, 1953—New York Hanseatic Corp., 120 Broadway, New York 5, N. Y.

**New York City Bank Stocks**—Comparison and analysis of 19 New York Bank Stocks as of Sept. 30, 1953—Laird, Bissell & Meeds, 120 Broadway, New York 5, 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.

**Public Utility Common Stocks**—Comparative figures—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

**Reinsurance**—Study of the industry and statistical data on **General Reinsurance Corporation, American Re-Insurance Company**, and **Employers Reinsurance Corporation**—First Boston Corporation, 100 Broadway, New York 5, N. Y.

**Utilities**—Analysis in current issue of "Market Pointers"—Francis I. du Pont & Co., 1 Wall Street, New York 5, N. Y. In the same issue is a list of **Growth Stocks, Candidates for Year-End Extra Dividends and Beneficiaries of the Elimination of the Excess Profits Tax.**

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**American-Marietta Co.**—Memorandum—A. C. Allyn & Co., 122 South La Salle Street, Chicago 3, Ill. Also available is memorandum on **Philadelphia Electric Co.**

**Asbestos Corporation Limited**—Analysis—Dominion Securities Corporation, 40 Exchange Place, New York 5, N. Y.

**Bell Telephone**—Memorandum—A. E. Ames & Co., 320 Bay Street, Toronto, Ont., Canada.

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

**Cinerama Productions Corporation**—Analysis—Van Alstyne, Noel & Co., 52 Wall Street, New York 5, N. Y.

**Federal Manufacturing & Engineering Corporation**—Analysis Amott, Baker & Co., Inc., 150 Broadway, New York 38, N. Y.

**Frobisher**—Memorandum—J. Bradley Streit, 66 King Street, West, Toronto, Ont., Canada.

**Hoffman Radio Corp.**—Memorandum—William R. Staats & Co., 640 South Spring Street, Los Angeles 14, Calif.

**International-Great Northern**—Memorandum—Dreyfus & Co., 50 Broadway, New York 4, N. Y.

**Keyes Fibre Company**—Analysis—Boenning & Co., 1606 Walnut Street, Philadelphia 3, Pa.

**Old Ben Coal Corporation**—Special report—H. M. Byllesby and Company, Inc., 135 South La Salle Street, Chicago 3, Ill.

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

**Rosefield Packing Company**—Analysis—Aetna Securities Corp., 111 Broadway, New York 6, N. Y.

**Servel, Inc.**—Analysis—Eastman, Dillon & Co., 15 Broad St., N. Y. 5, N. Y.

**Standard Brands, Inc.**—Analysis—Bregman, Cummings & Co., 100 Broadway, New York 5, N. Y.

**Warner-Hudnut, Inc.**—Memorandum—Smith, Barney & Co., 14 Wall Street, New York 5, N. Y.

**Western Tungsten**—Memorandum—Victoria Securities Limited, Hall Building, Vancouver, B. C., Canada.

## Moyer & Co. to Become NYSE Member

Moyer & Company, a 111-year-old Philadelphia investment firm, has applied for membership in the New York Stock Exchange and, if approved by the Board of Governors, will become a member firm of the Exchange on Thursday, Oct. 22.

The firm's history goes back to 1842, when the New York Stock Exchange observed its fiftieth anniversary by moving into "the large hall over the Reading Room" of the Merchants Exchange Building.

The Philadelphia firm came into existence in March, 1842, when John E. Fox, who operated stage coaches plying between Philadelphia and such cities as Harrisburg and York realized the profit possibilities in bank note arbitrage. At that time, banks issued their own currency notes, which, while possibly worth par in the city of issue, might sell at a discount in another center. Fox was shrewd enough to see that his stage coach operations presented opportunities for buying Harrisburg bank notes, say, at a discount in Philadelphia and then selling them possibly at par in Harrisburg.

Moyer & Company is located at 1500 Walnut Street, Philadelphia, and the individual Stock Exchange membership would be held by Henry C. Fox, Jr. Other general partners in the firm are Edward T. Moyer, C. Leigh Moyer, Jr. and J. Miller Karper; while Lena Moyer is a limited partner.

"In recent years," Mr. Henry C. Fox, Jr. said, "a larger and larger percentage of our business has been going into stocks listed on the New York Stock Exchange and, being a non-member, we have been losing a great deal of commission revenue.

"I think it is fair to say that the change in many of our clients' preferences — from non-listed stocks to stocks that are listed—has been influenced by the educational and public relations work which the Stock Exchange itself has conducted in the past few years."

Originally John E. Fox & Co., the firm's name was changed to Fox, Moyer & Co. in 1906. The present name of Moyer & Company has continued unchanged since Jan. 1, 1907. Throughout its 111-year existence, there have always been members of both the Fox and Moyer families connected with the firm in some capacity.

Henry C. Fox, Jr., the proposed Stock Exchange member, is a grandson of David B. Fox, who was a cousin and partner of the founder. He joined the firm as an office boy in 1907; became a partner in 1925.

Except for some scant details about the original arbitrage business, most of the early records of the firm have been lost. Between 1907 and the 1920's, the firm of Moyer & Company did a large volume of business on the Philadelphia Stock Exchange.

If Moyer & Company is admitted, it will rank among the first dozen Stock Exchange member firms in length of years in the securities business. At present the firm's listed business is handled through Burton, Cluett & Dana and W. E. Hutton & Co.

## COMING EVENTS

In Investment Field

**Oct. 13-16 (Louisville, Ky.)**

Association of Stock Exchange Firms Board of Governors Meeting.

**Oct. 23-25, 1953 (White Sulphur Springs, W. Va.)**

Investment Bankers Association Southeastern Group Annual Conference at the Greenbrier Hotel.

**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.

**Sept. 22-26, 1954 (Atlantic City)**

National Security Traders Association Annual Convention at the Hotel Claridge.

## Harriman Ripley Co. Elects Three Dirs.

The election of Harold J. Berry, Walter V. Millette and David L. Skinner as directors of Harriman Ripley & Co., Inc., 63 Wall Street, New York City, has been announced by Pierpont V. Davis, President.

Mr. Berry is a Vice-President in the buying department, and has been with Harriman Ripley since his graduation from the University of Pennsylvania in 1935.

Mr. Millette and Mr. Skinner were both formerly with The National City Company and joined Harriman Ripley at its formation in 1934. Mr. Millette is Vice-President in charge of Harriman Ripley's New York Sales Office. Mr. Skinner is Vice-President in charge of syndicate operations and the wholesale distribution of Shareholders' Trust of Boston and Blue Ridge Mutual Fund, Inc., investment company shares.

### Robert H. Loeb

Robert H. Loeb, member of the New York Stock Exchange, passed away at the age of 70. Mr. Loeb had been a member of the Exchange since 1909.

## NSTA Notes

**SECURITY TRADERS ASSOCIATION OF NEW YORK**

Security Traders Association of New York (STANY) Bowling League standing as of Oct. 8, 1953 is as follows:

| Team: | Points |
|---|---|
| Bean (Capt.), Bass, Valentine, McGovern, Bradley | 16½ |
| Serlen (Capt.), Rogers, Gold, Krumholz, Gersten | 14 |
| Klein (Capt.), Fredericks, Murphy, Weseman, Buff | 14 |
| Leone (Capt.), Nieman, Gannon, Tisch, Greenberg | 13 |
| Hunter (Capt.), Brown, Reid, Farrell, Barker | 12 |
| Krisam (Capt.), Pollack, Cohen, Smith, Strauss | 10 |
| Meyer (Capt.), M. Meyer, Frankel, Wechsler, King | 9 |
| Kaiser (Capt.), Hunt, Werkmeister, Swenson, Ghegan | 9 |
| Donadio (Capt.), Craig, Gronick, Bies, Demaye | 9 |
| Manson (Capt.), Jacobs, Topol, Weissman, H. Frankel | 6 |
| Burian (Capt.), Gavin, Clemence, Montanye, Whiting | 5½ |
| Growney (Capt.), Boggs, Siegel, Voccolli, Lienhardt | 2 |

**200 Point Club**

Bernie Weissman ____205

**5 Point Club**

Will Krisam

Roy Klein

# National Business Conditions and California

By ROBERT R. DOCKSON*
Professor and Head, Department of Marketing,
University of Southern California

**Professor Dockson reviews national business conditions, and then analyzes situation in California. Says, if our economy is to continue to prosper and grow, there must be an effective demand for goods and services coming from: (1) expenditures for private investment purposes; (2) expenditures by foreigners for our products; (3) expenditures of all levels of government, and (4) expenditures by the American consumer. Discusses California economic trends, and is optimistic about future of California's employment.**

Today, I have been asked to talk to you regarding economic trends in California. We all are well acquainted with the fact that whatever happens to our California economy will be determined largely by what happens in the nation. Because of this, I will divide this address into two sections: (1) a review of the national situation, and (2) a look at California to see how it fits into the overall pattern.

Robert R. Dockson

### National Business Situation

As you are aware there are a number of approaches that are used by economists and analysts in their attempts to depict current business conditions. Certainly, our statistics or the knowledge of the meaning of them are not sufficiently accurate to place total reliance upon any one method. This morning, I intend to place emphasis upon one approach but will endeavor to bring into the picture others in order to supplement my remarks.

If our economy is to continue to prosper and grow, bringing an ever higher standard of living to our population, there must be an effective demand for all the goods and services we produce. The demand for these goods and services can only come from four areas: (1) expenditures for private investment purposes; (2) expenditures by foreigners for our products and services; (3) expenditures by government, Federal, state and local, and (4) expenditures by the American consumer.

A look at the present magnitude of these components enables us to evaluate the relative importance of each, and at the same time, realize the dollar value of this country's production. According to the latest statistics the total current value of all the goods and services that will be produced in our economy in 1953 will be in the neighborhood of $380 billion. After adjusting for the decrease in the value of the dollar, this is more than double the dollar value of the goods and services produced in 1939. Private investments, that is expenditures for new construction, equipment and inventories, will amount to nearly 16% of this total; government expenditures will take about 22%, while net foreign expenditures will be about 0.1%, a negligible figure. This year's personal consumption expenditures, or the purchases of the American consumer, will approximate $235 billion, or close to 62% of the total of all goods and services produced. Any analysis of our economy must take into account the forces working within each of these areas. They are interrelated and what happens in one will have an effect on the others.

*An address by Professor Dockson before the Employment Security Association of California, Los Angeles, Calif., September 25, 1953.

### Expenditures for Private Investment Purposes

Although actual outlays for plant and equipment are running about 7% over last year, there are indications a downturn in capital expenditures might be expected. Last month, for example, industrial stock offerings fell to the lowest figure since February, 1951, and to the poorest showing for an August since 1950. The offerings were one-third below last year and two-thirds below 1951. Bond financing was also down to the lowest point since March, 1952. In addition, the cost of money has been increasing. I am one who believes that an increase will not stimulate businessmen to invest more heavily, particularly if they are worried over future business conditions.

To date we have very little information about the spending intentions of business for plant and equipment for 1954. However, the McGraw-Hill survey does show an anticipated drop in outlays for the fourth quarter of this year. The drop is not great, but if the survey is correct, we can expect total expenditures for plant and equipment for the last quarter to be $1.34 billion below the high annual rate of $28.42 billion spent between July and September. Although the majority of manufacturing groups expect a drop in expenditures, it is most noticeable for textiles, non-automotive transportation equipment and for the stone, glass, and clay industries.

Because we are entering a period of increased competition on the part of all business, I believe we are likely to see that expenditures on new plant and equipment will remain at a fairly high figure for 1954. There are hundreds of thousands of firms that will be forced to modernize their plants and their equipment if they are to attract the customer and reduce their costs. Innovations are being tested every day, and as they prove their worth, more and more companies will place orders for them. In all probability, outlays for plant and equipment in 1954 will be below 1953, but the decline is not apt to be drastic.

When talking about expenditures on plant and equipment, we must not overlook residential construction. The boom in this field has been one of the main supports of business activity during all of the postwar years. Between 1946 and the end of this year, nearly 8,000,000 permanent dwelling units will have been added to our housing inventory. The total number of households continues to increase, but the rate of increase has been declining since 1947. This will continue, in spite of the tendency for older people to establish separate households, until the late '50's when the high birth rate of the '40's results in another boom in marriages. Although there will be at least a million homes built this year, we will have a gain of but 800,000 new families. The Census Bureau estimates that approximately this number can be expected over the next few years. If this were the only factor determining the number of dwelling units constructed, it is easy to see a decline would have to be predicted.

Another factor of prime importance determining the amount of residential construction is the availability of funds. Even though interest rates have been increased, there are still indications that money for residential building is tight. We know construction could be stimulated and there would be another rush for single dwelling units if down payments were lowered and the maturities extended. Of course, there are many who complain about the size of the consumers' mortgage debt. The debt is large but is it as dangerous as it might appear?

It is interesting to note that in 1939, conventional loans on 1 to 4 family dwelling units amounted to 89% of the total of $16.3 billion of mortgage debt outstanding compared with only 57% of $61.5 billion outstanding as of June 30th of this year. In other words, 43% of the debt outstanding on non-farm housing is underwritten by the government today compared with but 11% in 1939. The tremendous programs of the V. A. and F.H.A. have played an important part in adding the 8,000,000 units to our housing inventory.

If a downturn in business of significant proportions is in sight, I am convinced the terms of the government guaranteed loans will be adjusted in order to stimulate construction.

What happens to business inventories is another part of private expenditures that should be borne in mind. Production is influenced by the level of inventories and, currently, this level is at an all-time high—$78 billion. When related to current sales the inventories do not seem to be out of line. However, this high level is being carefully watched. If sales begin to taper off, orders are likely to be cancelled and a reduction in production will follow.

On the whole, it seems that total private expenditures for plant and equipment, residential and other construction and inventory accumulation are likely to decline in the months ahead. It is this segment that will have the greatest impact upon the F.R.B.'s index of industrial production. These are some of the reasons why some analysts are predicting a drop of as much as 20 to 40 points by the end of 1954.

### Expenditures by Government

Currently, total Federal government expenditures are running very close to what might be considered the peak. Fiscal 1953 ended with total government outlays of $74.6 billion resulting in a deficit of $9.4 billion. During the past year, expenditures for national security purposes have consistently increased until they now are in the neighborhood of $54 billion. Secretary Humphrey has recently released a statement that spending for national security purposes is on the decline. He estimates there will be at least $1 billion less spent on the military, foreign aid and atomic energy programs than was spent last year. The Treasury's most recent estimate of total federal expenditure for fiscal 1954 is $2 billion below the estimate made in May of $74 billion. For the first time since 1948, the Administration has asked for less money for future spending than the estimated budget expenditures. This is highly important, particularly if it is continued in future years. It will mean the backlog of accumulated appropriations will begin to decline and, eventually, expenditures will be more in line with commitments.

According to the most recent estimates the deficit for fiscal '54 will be $3.8 billion. On a cash basis, it is possible a slight surplus will exist. Most of us will be glad to see a stop put to deficit financing, but it must be recognized that a surplus in our federal budget will have quite a different repercussion on our economy than the large deficit of the last fiscal year.

Since the end of the war, expenditures by state and local governments have increased steadily from $8 billion to $23.4 billion for 1952, and they are currently running at $24.6 billion. As I see it, there is no reason to believe that these expenditures will decrease in the next few years. Many states are just getting underway with their highway and public building programs. Some areas have been held back on their expansion program because of the lack of manpower. If there is a softening in other segments of our economy, part of the lag can be thus taken up through increased expenditures by state and local governments.

Although state and local governments might be able to increase their expenditures, it is doubtful the increase will offset the expected decline of $4.5 billion in federal government expenditures. On the whole, then, we have one more important anti-inflationary factor at work.

### Net Foreign Expenditures

At the present, I do not see how we can expect any increase during the coming year in foreign demand for our products. Although our imports have increased moderately in the past few months it is not likely the present situation will change enough to have an important effect upon the total demand for all the goods and services produced. On balance, this factor is rather insignificant for our purposes, and we need not explore it to any extent.

### Expenditures by American Consumers

We have already noted that it is the consumer who purchases the biggest share of the goods and services produced in our economy. Because he takes about 62% of the total, it is his purchases that largely determine the direction the economy takes.

If our assumptions are correct, that is, that there will be a reduction in expenditures for purchase of plant and equipment and the purchases by government, it falls to the consumer to increase his expenditures by at least as much as the expected drop in the other categories if we are to maintain the present level of goods and services produced in our society. Can this be done? This is the great marketing problem facing our free enterprise system. There is no question but what we can produce the goods—the real difficulty is whether or not we can get the results of this production into the hands of consumers.

Actually, since the end of the war, per capita income after taxes and per capita expenditures in terms of constant dollars have not changed significantly. They have doubled since the low point was reached in 1932, but for the past eight years, they have remained relatively stable with an upward tendency. This year, with prices remaining somewhat steady and no significant changes in taxes, there has been an increase in per capita real income. When charted, this statistic looks as though it is continuing the upward trend started in the '30s.

Total consumer expenditures have increased over $12 billion since a year ago. The greatest percentage increase over this period was for hard goods such as automobiles, jewelry, tools, books and sport equipment. Outlays for appliances have declined a little, and this has been reflected in the reduction in production of such items as television and radios and other major household appliances. All told, the American consumer's demand for durable goods is up about 15% over a year ago. Non-durable goods have increased but approximately 2% over the past year and even this is partially explained by slight price increases of food and alcoholic beverages. The Americans' demand for services continues to increase as incomes go up. So far this year, the

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# The Public and the Oil Industry

By R. H. COLLACOTT*
Assistant to the Chairman
The Standard Oil Company (Ohio)

**After discussing problems involved in giving proper publicity to activities in oil industry, Mr. Collacott concludes: (1) story of the industry cannot best be told in advertising underwritten by the entire industry; (2) conflicts of different members of the industry should not be concealed as they give evidence of healthy competition; (3) the social and international problems can be more readily solved when wider understood by public; and (4) public should be led to believe oil industry is in competent and ethical hands. Says "it behooves the industry to keep its skirts immaculately clean."**

The subject I shall discuss is serious enough to call for a fairly complete analysis, a thorough re-examination of our materials and methods in public relations activities, and most of all, a ruthless inquiry into our practices to see that they are as antiseptic as we believe them to be.

R. H. Collacott

First off then let's recognize what an industry is. It is not an entity like a corporation or an individual. It is not quite such an abstraction as summer time or the color red but on the other hand it is not a concrete person who can be sued or hailed into court, no matter how much time some of its members seem to have spent there. Neither can it take aggressive action as a defense against slander and recrimination. That is one of the reasons it is so easy to take pot shots at it. It's easy because it's so safe. Then too it doesn't command loyalty in quite the direct way that a person or a business organization does. We may be intensely loyal to our own businesses or associates but we aren't so quick to rally to a group containing many persons or institutions with whom we have serious conflicts of interest. And we do have such conflicts. I don't need to remind you that situations are constantly arising between you as one segment of this industry and other groups such as major oil companies, pipe line companies, and others which put strains on your relationships even greater than those which develop among yourselves as individual competitors. In fact, it is problems of that sort which bring you together here in this association. Many of these differences can not be reconciled. This can and occasionally does lead to a certain amount of resentment on your part when others just by their size and economic influence seem to tyrannize over you. I am not trying here to make you feel sorry for yourselves. Nothing could be much more out of place and if it were in order, I should not be the one to do it.

I mention it only to emphasize how difficult it is to go out not only to defend the industry but actively sell the public on practices with which you are not in sympathy or to promote interests which conflict with your own. The actual fact is of course, that under such circumstances you don't do it and no one expects you to. The result of all this is that in preparing much of our public relations program, we search for those matters on which we can find virtually complete agreement so that we all can get behind them and all join in the program. While there is no great harm in this, it does entail considerable effort and expense and has raised some honest doubts as to its effectiveness. This constant search for neutrality has developed some rather pallid material frequently of a statistical nature. Now this is a big industry in a bigger contry and almost any presentation involving quantities runs into pretty big figures which outreach the imagination of our audience. When you talk about billions of this or that you might just as practically step it up into trillions or quadrillions since you have already gone beyond his comprehension. The result of all this is that we are all too often trying desperately to get a little news item on page ten or worse yet having to buy space to tell the stories of our own choosing while the editors are splashing news about the industry all over page one. They select the items that have an impact on people, items which involve red hot political issues and which by their very nature invite editorial treatment. To many of these we reply with a discreet and dignified "No Comment" even though any editor would welcome a clear statement of industry point of view.

Since such matters frequently contain inferences of improper activity our indifference or clam-like silence is often interpreted as taking refuge in Article Five of the Bill of Rights and saying "I refuse to answer on the grounds that I might incriminate myself."

Many of these issues are controversial. That is not a very penetrating statement and I think everyone will agree with it but the important fact is not just that they are controversial but they are often for that very reason incapable of anything resembling a perfect solution. The nearest that we can come to a perfect solution will be that which arrives at an ethical compromise of the various interests involved. That is not only a difficult task but, once set up, is certain to prove unstable because of the appearance of new factors which constantly tend to upset that nice balance.

**The Industry Should Keep Public Informed**

~~Society~~ is going to have a lot to say about many of the questions either through direct legislation or through the less specific but equally inexorable exercise of public opinion. Our interest in having this opinion be well informed is of a two-fold type. First, we want very much to have society's active help toward creating a sound economic climate, and second, when that action has been taken, it is equally important to us that the public shall know what it entails. Case after case arises where we can cite the old adage "you can't eat your cake and have it."

Let us take a case in point, one which does not immediately concern you people assembled here, that is the conservation measures adopted by the Federal Government and by several of the States in the production of crude oil.

The long history of extravagant and wasteful crude oil production up until recent years is fairly well known to each of you. In order to deal with that problem a great many programs were suggested, some of which resulted in legislation. Even though you may not be students of that end of the business you know something about proration, allowables, hot-oil acts, and joint operation of a field. Many of these practices if introduced into marketing would quite properly raise a hue and cry across the country. On the face of it they violate many of our notions of unrestrained competition. But the significant point here is this, they came into being to remedy a situation, which, if continued, was considered to be against the national interest. Some of the laws, naturally, were promoted by members of the oil industry but many more were not. They were enacted, however, in the full light of day and given as much publicity as the interest of the man in the street permitted. In view of this it seems a little ridiculous to read about attacks and accusations which are concerned with adherence to these well-known practices. It seems equally unfortunate to read of fumbling attempts at defense when there is nothing to defend. If the game as it is being played is not right, then let's change the rules of the game but let us not indict the players for adherence to rules which in many cases they had nothing to do with establishing.

However, I did not come here with the presumptuous intention of telling this gigantic industry

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*An address by Mr. Collacott before the Tennessee Oil Men's Association, Knoxville, Tenn., Oct. 6, 1953.



*Continued from page 2*

# The Security I Like Best

nature of this industry, aggressive grocery chains have forward-looking characteristics in that they are able:

(a) To encroach successfully on other fields of merchandising.
(b) To adapt retailing to self-service methods.
(c) To move stores into new population centers with alacrity as against the cumbersomeness of other types of retailing rooted to big plants in overcongested shopping areas.

Plagued in 1951 and 1952 by the rigidities consequent upon price ceilings and regulations, victimized during the postwar period by sustained inflation affecting historically narrow profit margins, and before that blocked from expansion and rehabilitation by wartime building restrictions, the industry is now in a position to maneuver freely toward the full realization of its profit-making potential.

There are many attractive and growing situations in this industry: some small and regional; A. & P., the leader, national in scope; and the second in size, Safeway Stores, which started on the Pacific Coast and, reversing the pageantry of American history, has moved with inexorable drive toward the east and started on the Atlantic Coast in the New York-New Jersey and Virginia-Maryland areas, forming two nuclei of operations which may ultimately become complete national coverage. This, too, in the writer's opinion, is an attractive issue, but since there are many controversial aspects, we will content ourselves with a more clear-cut portrayal — American Stores.

American Stores operates in seven states in Middle Atlantic region with heavy concentration in Pennsylvania, New Jersey, and upstate New York. Like many long established food retailing companies, at the end of the 1930's American Stores had a large number of old and small units which were becoming obsolete, the rehabilitation of which was interrupted by the war. During the postwar period the program of modernization has been going on and during the last four years 209 new supermarkets were opened while 553 of the old units were closed. Sales have increased $100 million over the past four years while the number of stores has dropped from 1,637 to 1,289.

At 42 in a not too active market, the common stock of American Stores represents a constructive commitment in the rehabilitation of earning power of this fourth largest chain in the relatively depression-proof grocery industry. Since the end of 1945 over $50 million has been spent for gross additions to plant and equipment, the funds derived about evenly from internal sources and from the issuance of $25 million of long-term debt. This money has been used to build warehouse and bakery plants and to construct new supermarkets as against scrapping a large number of old stores no longer desirable in modern grocery retailing.

For the fiscal year ended March 28, 1953, reported earnings were $3.90 per share, about unchanged from the year before but substantially lower than earnings of over $5 per share in fiscal 1950 and 1951. This trend seems in the process of reversal and earnings for the current year at around $5 per share based on 52% normal corporate income taxes appear likely. This estimate is realistic since the company earned at a $5 rate during the second half of last year following the poor first half results which suffered from strikes and the start-up expenses of the large new Philadelphia bakery and warehouse. Sales during the current year are showing a highly favorable trend with volume for the five months through August showing an increase of 10% compared with a year ago. Further improvement of earning power is expected as the process of rehabilitation continues and earnings of $6 can be envisaged quite easily warranting an increase in the $2 dividend, already a low payout in relation to current profits.

This should bring about a substantial revaluation of the shares. Earnings multiples of 11 or 12 times are customary among large grocery chains and it is usual for securities in this group to sell substantially above book value. American Stores' book value is 47.

Further, while there are only 1,301,000 shares outstanding, which makes trading somewhat inactive, this should be remedied in the due course of corporate events when the company gets around to utilizing the 700,000 of authorized but unissued shares now available after the recent increase in authorization which presumably meant something other than work for the lawyers. American Stores common stock is listed on the New York Stock Exchange.

# Long Island Lighting Offering Underwritten

Long Island Lighting Co. is offering holders of its common stock of record Oct. 14, 1953, rights to subscribe at $16 per share for 685,648 shares of its common stock at the rate of one share for each seven shares held. Transferable warrants will expire at 3:30 p.m. (EST) on Oct. 29, 1953.

In addition, the company is simultaneously offering at the same subscription price 100,000 shares to its employees, including officers, through non-transferable subscription privileges. This offerng is being made pursuant to an employees stock purchase plan authorized by stockholders on April 21, 1953.

Net proceeds from the sales will be used to reduce bank loans incurred for construction of utility plants.

Blyth & Co., Inc., The First Boston Corp. and W. C. Langley & Co. are the managers of a banking group which has agreed to purchase all unsubscribed shares.

Construction expenditures for the period Aug. 1, 1953 to Dec. 31, 1955 are estimated at $121,300,000, of which $96,600,000 is for electric property. In addition $15,200,000 is estimated for gas property and $9,500,000 for common property.

To complete the construction program through 1955, it is estimated that the company will require approximately $80,000,000 in addition to funds expected to be provided by depreciation accruals, retained earnings, this financing and the contemplated sale of $25,000,000 of first mortgage bonds in November of 1953.

The company supplies electric and gas service and is not in direct competition with any privately or publicly owned electric or gas utility. Approximately 74% of its total operating revenues are derived from electric service. The franchise area covers Nassau and Suffolk Counties and the contiguous Rockaway peninsula in New York City.

For the 12 months ended July 31, 1953, the company showed operating revenues of $62,778,000 and net income of $7,060,000 equivalent to $1.26 per average common share outstanding in the period.

# American Prejudices And the Price of Gold

By DR. W. J. BUSSCHAU*

Managing Director, New Consolidated Gold Fields
Former Deputy Minister of Finance, Union of South Africa
Co-Editor, "South African Journal," Author, "The Measure of Gold"

**Dr. Busschau states as "unassailable facts": (1) Decrease of world's monetary gold reserves relative to "money supply"; (2) Many countries' resultant inability to trade on international account; (3) Policy of gold-hungry countries of building up gold reserves; and (4) Increase in liquidity and freedom of trade through reduction of value of credit in terms of gold. Maintains "prejudiced pseudo-critics" have raised extraneous objections. As prejudices he lists: Use of inflation as a "boo-word"; contention that there is "enough gold" at current price; assertion of dollar's over-devaluation; sacrosanctity of present price; argument against upsetting "stability of the dollar"; the "Red prejudice" implying help to Soviet Union; and "prejudice of numbers" opposing the move. Insists gold hike would promote convertibility.**

At the end of the last war many people were paying tribute to the magnificent conduct of the British people during the war; but the British themselves had become preoccupied with their difficult current economic problems and wanted advice and assistance on those rather than tributes to their past behavior. Similarly, perhaps, citizens of the United States no longer wish to be told of their generous actions in the rehabilitation of Europe and other war-ravaged areas, and perhaps they now wish to consider what economic arrangements are desirable in order to secure prosperity and a high level of employment in the future. The point I wish to make is that nothing I say is to be regarded as not recognizing the generous role your country has played in postwar international economic cooperation.

Dr. W. J. Busschau

### Preconceived Opinions

The word "prejudices" in my title may sound harsh to your ears, but it is not so intended. I do not intend to use it in the sense that it implies bias in the form of ill-will or selfishness; I want to use it in the sense of preconceived opinions. My reason is that I believe that discussion on the whole question of the relation between credit and gold is hampered by the acceptance in your country of notions which have been taken over without question. These prejudices, in the sense of preconceived opinions, do not stand up to examination. The word "American" also needs qualification. Most of the prejudices are indeed un-American in origin and in spirit: I use the adjective simply because the ideas are currently in circulation in your country.

Before I left South Africa I was asked whether I would defend "attacks" on my theories made in the United States, but my reply was, and is, that this is not possible since your pseudo-critics have not in fact made direct criticism of the "international liquidity theory." What they prove to their satisfaction is that there is not a case for a unilateral devaluation of the dollar in terms of gold, with the gold value of other currencies left unchanged. That is not a view which I want to discuss, nor, indeed, one that I would oppose on certain assumptions, but I do not believe that having established that case one has also dealt with the case of a change in the measure of gold in terms of all currencies — the case to which I shall briefly refer as the international liquidity argument.

### Unassailable Facts

There are certain facts which in a discussion of this nature are, I believe, unassailable. These are:

(1) The amount of credit now called "money supply" by the International Monetary Fund is now about 4½ times what it was before World War II, while the world's monetary gold reserves in terms of dollars are now only about 1¼ times what they were then.

(2) Many countries are in the unhappy position that they cannot freely trade on international account because their gold reserves are inadequate.

(3) It is the declared object of policy of the gold-hungry countries to build up their reserves of gold and/or currencies which through official transactions can be converted into gold.

(4) An upward change in the measure of gold (i.e. in the relation of credit to gold) by reducing the value of credit in terms of gold would enhance the liquidity of all countries and allow freer trade.

### No Serious Challenge

None of these points, I would submit, has received serious challenge. What the pseudo-critics have done is to raise extraneous objections, and when these have been met point by point they still do not deny the fundamental points but take shelter under the bold declaration that they "still believe that a rise in the price of gold would raise more problems than it would solve." It is, of course, almost impossible to argue with anyone who quotes vague unsupported beliefs and whose version of history is legend without tradition. Among those who have a deep knowledge of monetary history there are no opponents. History, indeed, is a sorry tale of bad debts, defaults and broken promises and of frequent adjustments in the relation between credit and commodity money. I believe, too, that by the historical standards, the United States dollar of today cannot be described as strong. There is merely the illusion of strength because the dollar is less weak than other currencies which are woefully weak—and by historical standards there is no test of strength other than the ability to redeem the paper by payment in commodity money.

But before I come to deal directly with the prejudices, let me make what the lawyers would call a declaration of interest. While I am talking tonight in a private capacity, it is true that I am connected with gold mining, and I would ask again—as I have vainly asked on some previous occasions—that the argument presented will be met by counter-argument and not by insinuations about the integrity of the person presenting them. As a counterpart of my request, I shall in discussing the prejudices not label them with American names. In any case, why should gold producers not be interested in what their output fetches, and why should their efforts to have the question examined be regarded with so much suspicion? The same objection is not made to the representations of farmers in the United States or wool-growers in Australia who seek, for what they believe to be good reasons, to obtain a new scale of remuneration. May I also make a declaration of "no interest," I do not come from what Senator McCarthy has described as a "recipient nation." My country has not been the recipient of largesse from the Government of the United States and, unlike some other countries, our critical faculty towards the United States is not conditioned by expectation of further largesse. What transactions have taken place between the two governments are in the nature of business loans, which will be repaid as our government's debt always have been—on the due dates, without fail. I mention this because there are many critics—their number is legion among the Leftists—of South Africa's social policies, but on the question of the price of gold there is no political division in the Union. For example, the former Leader of the Opposition, the late Field Marshal Smuts, who was no mean student of international affairs, gave me his view as follows:

"The dollar is the premier monetary currency today but its value is out of all relation with world commodity values—with the result that one does not fit the other, and a gap has arisen which is becoming more and more disruptive of the world economy. A crash must come, which will involve America with the rest of the world. The sooner this danger is faced, the better for world recovery and returning prosperity."

### International Liquidity View Widespread

I should add that the international liquidity view is shared by many persons who have no interest in gold mining but wish to have order restored in international monetary affairs. It is grossly unfair to use a "smearing technique" on them.

A major difficulty in a discussion of these matters relates to the use of words, and I believe the main culprits are those once-famous economists, Keynes and Cassel. Keynes did with much rhetoric promote the view that gold was a mere "barbarous relic" whose use even in the settlement of international balances was a mere anachronism. But perhaps Cassel was the author of even more confusion. He helped to propagate the idea that the world could function with a system of inconvertible currencies whose value would depend, in international exchanges, on their internal purchasing power. This, in the light of recent and all earlier history, is an impractical idea since it implies that the creditor countries would be willing to hold idle book balances of the debtors' currencies until some future date at which they would use them for purchase. No such overall situation has ever existed in the world, nor is it likely to arise in the near future. Despite the mock funeral, at which Cassel and his admirers assisted, and despite the elegies of Keynes and his attendants, the subject of gold and its relation to credit has not been buried, nor has it been cursed out of discussion.

### Clarification by Rist

As Professor Rist has clearly shown, there has for centuries existed in English literature a confusion between money and credit. Indeed, what the I.M.F. now calls "money supply" is a total taken from the "liabilities side" of banking balance sheets, while the accepted historical view of money relates to commodity money which appears on the "assets" side of banking balance sheets. John Locke long ago gave a proper definition of money as "some lasting thing that men might keep without spoiling and that by mutual consent men would take in exchange for the truly useful but perishable supports of life." It is in this sense that gold is money; the successor of a number of metals which have performed the function but which in turn have been discarded as they became too plentiful. "Too plentiful" because there is an essential condition that what is used as commodity money should have a current rate of production which is low in terms of the stock already existing. The use of commodity money has not arisen out of mysticism, as Keynesians allege, but it answered a severely practical need.

### Convertibility Brake on Fluctuation

Where paper money (i.e. credit) is convertible into the commodity money, the amount of credit outstanding cannot fluctuate widely. If the increment in the stock of commodity money keeps pace with the growth of physical production, prices also will not fluctuate widely. If the condition of small increments is met and if there is no change in efficiency of production, then variations in the rate of growth of money and of physical production will not be large and the hardships caused by the fluctuation in prices through changes in the volume of credit will be small. Prices will naturally fluctuate for physical reasons, such as fluctuations in crops owing to climatic variations, but these could not be described as due to monetary causes. If efficiency increased in the sense that goods could be more easily produced, then prices would tend to fall in relation to the stock of money while, conversely, prices would tend to rise with a fall in efficiency.

### Credit Under Barter System

Credit can arise under a barter system and the real reason for credit under a barter or under a monetary system is that of facilitating production. For example, credit allows a man with skill but no land to rent a farm and produce a crop. Under a system of commodity money with convertible currencies the limitation on the creation of credit would depend mainly on whether an extension of credit would produce an increase in output. Consequently, mistaken investment financed through credit would result in losses. When, as in the 20th Century, the requirement of convertibility is removed by legal force, credit can be expanded to a much greater extent. Historically, as already mentioned, large increases in credit have meant revaluation of credit in terms of commodity money by the traditional methods of devaluation, clipping of coins, etc. *The international liquidity argument recognizes the inflation that has already taken place.* It desires to avoid, now and in the future, both inflation and deflation by establishing par values that can be maintained without default. Its advocates hope that the future will use a more workable relation between credit and gold than the one attempted after World War I which sought to retain the prewar relation by destroying much of the credit and ruining many people in the process.

It has been necessary to make these rather lengthy remarks in order to outline the position of the international liquidity school and to reduce the problem to manageable proportions for this discussion. Against this background I can now deal with the prejudices.

### Prejudices

The first and most successful prejudice of the pseudo-critics is the use of the cry "inflation" as an objection. Indeed, this is what philosophers now call a "boo-word." I would submit that no class of producers has hated the process of inflation more than gold miners in the United States. Has it not in fact meant that while other producers have seen their costs rise, they have been able at the same time to increase their revenue, while gold miners have had the headache of a rising floor of costs pushing up towards a fixed ceiling of revenue? A critic might say that gold producers will welcome a higher price, even if it is accompanied by some inflation.

Continued on page 32

*An address by Dr. Busschau before the Mining and Metallurgical Socity of America, New York City, Oct. 7, 1953.

# Missouri Brevities

**Kansas City Power & Light Co.'s** net income for the 12-month period ended Aug. 31, was stated as $6,389,944, equal to $2.36 a common share, after preferred dividends. This compares with net income of $5,519,477, or $2.05 a share on common a year earlier.

Gross revenues were $44,451,525, against $39,475,232. Expenses rose from $32,053,863 to $36,359,842. Federal income taxes were $6,371,978, against $5,466,607 the previous 12 months.

* * *

**Union Wire Rope Corp.** reported sharply increased sales and earnings in the first half of 1953 as compared with a year ago and a further improvement is expected in the current quarter.

Net income of the company for the first six months was $383,923, equal to 64 cents a share on the outstanding 600,000 shares of common. In the like 1952 period, net was $284,720, or 57 cents a share on 500,000 shares of common.

Earnings before income taxes were $1,113,922, against $899,720 for same period last year.

Sales for the first six months were $6,309,943, against $5,479,156.

* * *

**Missouri Public Service Co.'s** net income for the eight months ended Aug. 31, was $872,264, equal after preferred dividends, to $1.51 a common share. A year earlier the net of $817,939 was equal to $1.44 a share.

Operating revenues in the period were $6,061,844, against $5,524,806. Operating expenses were $3,840,137 against $3,405,751. Federal income taxes amounted to $738,500, compared with $724,500 last year.

The Aug. 31 balance sheet total plant investment was $32,828,641, compared with $30,199,559 on Jan. 1.

* * *

**Standard Milling Co.** is in a position to earn a million dollars before any of that amount is subject to Federal income taxes, Ralph Friedman, Chairman of the Board, reported to stockholders at the annual meeting held in Kansas City, Mo. This is because of losses in the two previous years. There is a tax carry-forward credit which now gives the company a "million-dollar cushion before taxes are charged against earnings," the Chairman stated.

Stockholders were advised that operations were reported to have been satisfactory in the first quarter of the fiscal year ended Aug. 31, with net earnings in excess of $250,000. In the 1952 period the company had earnings of about $125,000 before depreciation. Thus the current year's earnings are more than twice those reported a year earlier.

The corporation has 15 million bushels of storage space, all in use and it is interested in leasing additional country and terminal storage.

* * *

**Telephone Bond & Share Co.,** controlled by Theodore Gary & Co., has announced that virtually all of the preferred and class A common stockholders have assented to the recapitalization plan which was consummated July 15.

Of the outstanding 49,174 shares of 7% first preferred, 1,459 shares of $4 participating preferred and 78,437 shares of class A stock, the dissenting number Sept. 22, included 1,123 shares of 7% preferred, 60 shares of $4 participating preferred and 16 shares of class A common.

A petition for the appraisal of the value of the company's shares has been filed in the Court of Chancery of Delaware. This is the normal precedure for the determination of the value of the shares of the dissenting stockholders.

The ultimate number of shares of new stocks that will be outstanding after the exchange of the three classes for the two new classes, namely the new preferred and common, will be 325,248 shares of preferred and 642,547 shares of common stock.

* * *

**The United Film Service, Inc.** reports that for the first eight months there was a 10% gain in net profits as compare with a year ago. After all charges, including contingent expenses, the earnings available for the common stock were $139,300, or $1.11 a share.

* * *

The directors of **Central Coal & Coke Corp.** have authorized the calling of a special meeting to be held on Jan. 14 for the purpose of calling half of the outstanding common shares at $38 a share, in liquidation.

Central Coal presently has in excess of $6,200,000 in cash and governments, the figure having been swelled by $5,000,000 realized from the sale of 25,000 shares of Oregon-American Lumber common stock.

Should stockholders approve the plan there will be nearly $15 a share in cash behind each of the 104,736 shares left outstanding.

* * *

**Laclede Gas Co.** for the 12 months ended Aug. 31, 1953 reported operating revenues of $32,399,598, as against $29,652,727 for the previous 12 months' period. Net income after taxes amounted to $3,157,985 or 96 cents per common share, compared with $3,200,951 for the 12 months ended Aug. 31, 1952. The latter figure was equal to 98 cents on the 3,029,861 common shares presently outstanding. Preferred dividend requirements totaled $230,000 for both periods.

* * *

Sales of **Western Auto Supply Co. (Mo.)** during the month of September totaled $14,479,000, against $15,524,000 in September, 1952, or a decline of 6.7%.

Sales for the first nine months this year aggregated $133,637,000, compared with $123,094,000 in the corresponding period of last year, or an increase of 8.6%.

The company, during September, 1953, owned 283 units and serviced 2,810 wholesale accounts, compared with 274 and 2,693, respectively, in the same period a year ago.

# Connecticut Brevities

Shareholders of **Peck, Stow & Wilcox Company** are being offered $14 a share for their common stock by **Billings & Spencer Company.** The offer is contingent upon receipt of 75,000 of the outstanding 100,000 shares by Oct. 14. Each of the directors of the former company have agreed to deposit their stock. Peck, Stow, located in Southington, has been in business since 1785. Upon completion of the purchase it would be operated as a subsidiary of Billings. Peck, Stow employs some 650 workers and produces mechanics' hand tools as well as machines and tools for sheet metal working. Billings & Spencer, established in 1869, is located in Hartford where it employs about 450 in the manufacture of hand tools and forgings. The tool lines of the two companies compliment each other.

* * *

On Dec. 1, 1953, all of the remaining 3% Convertible Debentures, due 1959, of **Connecticut Light & Power Company** will be called at 102½ plus accrued interest. The issue was originally issued in January, 1949, in the amount of $5,722,900 but has since been reduced to $109,950 through conversion. The remaining bonds can be converted on or before Dec. 1, by turning in $50 of debentures plus $4 in cash for four shares of common stock.

* * *

**Manchester Knitting Mills** has moved operations from a plant in Buckland to space in one of the plants of the former Hockanum Mills in Rockville. The company is presently operating on a two-shift basis in a total of about 20,000 square feet of floor space.

* * *

**The Armstrong Rubber Company** has announced plans to construct an addition to its West Haven plant. The new building will contain about 50,000 square feet of floor space in a four story brick building and will be used to produce a large truck, earth moving machinery and bomber - plane tires.

* * *

**Bush Manufacturing Company,** a producer of heat exchangers, intercoolers and refrigeration components, has made plans to purchase Heat-X-Changer Company of Brewster, New York. The latter will be operated as a subsidiary. Bush has also announced plans to build a 33,000 square foot plant on the West Coast to serve air conditioning and refrigeration manufacturers in that area.

* * *

**Doman Helicopters, Inc.** of Danbury has licensed Hiller of California to manufacture its H-31 helicopter for military use. Doman will continue to produce the civilian version of the same plane.

* * *

**Plax Corporation,** controlled by **Emhart Manufacturing** and **Owens-Illinois Glass Company,** is reported to be readying plans for a plant, warehouse and research laboratory in Morris Township, New Jersey. The new plant would be constructed at an estimated cost of $800,000.

* * *

The Seaboard Coil Spring Division of **Associated Spring Corporation** has moved into its new 90,000 square-foot Los Angeles plant. The new building, constructed at a cost of about $1,000,000, will permit a tripling of production over that possible in the former 35,000 square foot plant and will permit the Division to enter the field of hot-wound springs made from metals over a half-inch in diameter. The former plant has been sold.

* * *

The Public Utilities Commission has authorized the private sale by **New Haven Gas Company** of $1,500,000 of first mortgage bonds, 3⅞% series, due 1978. Proceeds are to be used to pay off bank loans and to finance plant expansion.

## Southeastern IBA Group to Meet

BALTIMORE, Md.—The Southeastern Group of the Investment Bankers Association will hold its annual conference at White Sulphur Springs, West Virginia, Oct. 23-25 inclusive. Reservations should be made direct with Mr. C. A. Bremicker, Greenbrier Hotel.

LeRoy A. Wilbur

The principal speakers at the conference will be Dr. Charles W. Williams, Vice-President and Director of Research, Federal Reserve Bank of Richmond, and Ewing T. Boles, The Ohio Company, Columbus, President of the IBA.

Edward C. Anderson, Anderson & Strudwick, Richmond, and Harvey B. Gram, Jr., Johnston, Lemon & Co., Washington, are Co-Chairmen of the Entertainment Committee.

The annual business meeting will be held during the conference.

A Committee consisting of W. Carroll Mead, Mead, Miller & Co., Baltimore, Md.; James H. Lemon, Johnston, Lemon & Co., Washington, D. C., and W. Peyton May, Investment Corporation of Norfolk, Norfolk, Va., has made the following nominations for officers for the ensuing year:

*Chairman*—LeRoy A. Wilbur, Stein Bros. & Boyce, Baltimore, Md.

*Vice-Chairman* — Wilfred L. Goodwyn, Jr., Goodwyn & Olds, Washington, D. C.

*Vice-Chairman* — Richard A. Bigger, R. S. Dickson & Co., Charlotte, N. C.

*Secretary-Treasurer*—Roderick D. Moore, Branch, Cabell & Co., Richmond, Va.

In addition to the above officers, the Committee has nominated for election to the Executive Committee:

John C. Hagan, Jr., Mason-Hagan, Inc., Richmond, Va. (For one year).

Mark Sullivan, Auchincloss, Parker & Redpath, Washington, D. C. (For three-year period).

James H. Lemon, Johnston, Lemon & Co., Washington, D. C. (Ex-officio).

Joseph W. Sener, John C. Legg & Company, Baltimore, Md. (Ex-officio).

An 18-hole golf tournament will be held with prizes for low gross, low net. A tennis tournament will also be scheduled with prizes for the winning team and runners-up. On Saturday afternoon at 3 o'clock there will also be a bridge tournament for ladies with high and low prizes.

## New York Bond Club To Hear Reno Odlin

Reno Odlin, President of the Puget Sound National Bank, will address The Bond Club of New York at a luncheon meeting to be held at the Bankers Club on Wednesday, Oct. 21, it was announced by Wright Duryea, Glore, Forgan & Co., President of the Club.

## Two With Calif. Investors

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—James A. Andy and Joe M. Hassler have become affiliated with California Investors, 1281¾ South Dunsmuir Avenue. Mr. Andy was previously with Standard Investment Co. of California. Mr. Hassler was with Douglass & Co. and Samuel B. Franklin & Co.

## Daniel T. Oertel Joins Gross, Rogers Firm

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Daniel T. Oertel has become associated with Gross, Rogers, Barbour, Smith & Co., 559 South Figueroa Street, members of the Los Angeles Stock Exchange. He was formerly with Edgerton, Lofgren & Co.

## With F.I.F. Management

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo. — Norman T. Johnson and Fred H. Nielsen are connected with F.I.F. Management Corporation, 444 Sherman Street.

# Bomb-Proof Investments and The Securities Outlook

By EARL L. SMITH*

Director of Advisory Department, Babson's Reports

**Mr. Smith, after discussing decisions which investors must now make in adopting an investment program, advises those who do not yet have a satisfactory amount of reserves to make some sales on market bulges so as to clinch some of their profits and thus have cash available for bargains. Says stock market's irregularity now provides opportunity to acquire undervalued common stocks.**

Investors now, as always, are faced with two important decisions, the consequences of which can determine the success or failure of their investment policies.

These decisions are: First, the distribution of investment funds between reserves on the one hand and stocks or other variable type assets on the other, commonly referred to as distribution between stocks and bonds; and second, particular securities to hold at this time. Let us discuss these in some detail.

### Distribution

In theory, investors will agree that when stocks are at their peaks a minimum amount of one's investment funds should be held in common stocks—that is, a minimum as set up in one's program. In practice, however, it is difficult to carry out this theory because one cannot be sure that the peak of stock prices has been reached until stocks have fallen so low that there does not seem much chance that they will soon go back to their previous highs. Furthermore, there is reluctance on the part of many investors to sell while stocks are high because they are afraid they will lose some appreciation through further price advances and besides they do not like to pay a tax on the long-term gain, particularly if the gain is a large one.

This conflict between theory and practice has to be met with courage to take action when common sense tells you that stock prices are in their upper ranges. One of the valuable functions of Babson's Reports is that it helps you to exercise the courage to take the action which your better judgment indicates you ought to take.

The Babsonchart shows that we have been enjoying a period of very high business activity for some time and that the stock market has fluctuated within a high range for the last two years. At present the market is down about 10% from its high earlier this year. If the stock market follows our expected trend of business activity and corporate earnings during the period ahead, it is difficult to see how we can have a very bullish market. In other words, it seems more sensible to anticipate that stocks will experience more weakness than strength for some time.

### The Individual Program

As to the precise distribution of investment funds between variable classes of securities, much should, of course, depend upon the needs of the individual or the objectives that he has in mind. For instance, the investor who is primarily interested in long-term appreciation or long-term growth and is not in need of current income might very well have the larger portion of his funds in secure reserves, preferably short-term government bonds or savings accounts. The object of holding such funds would be to have money available for the accumulation of security bargains as they appear from time to time. We feel that investors in this group should now have up to 70% of their investment funds in reserves.

On the other hand, the investor who is badly in need of current income might hold about 35% of his funds in reserves and 30% in good income common stocks with the other 35% invested in income preferred stocks and/or income bonds. Each drop in the stock market could conceivably open up enough good buying opportunities that investors might use a portion of their reserve funds to pick up some of these attractive issues. Great care will, of course, have to be used in their selection.

### Types of Securities

For reserve funds we prefer short-term government bonds — that is, bonds maturing within a year to two because such issues are not likely to vary enough in price to cause any loss of principal. Furthermore, money from short-term bonds could be reinvested in higher yielding short-term issues if there is a further shift toward higher interest rates. We do not, of course, weed out the desirability of investors holding savings accounts some of which they may have built up over a period of years. Neither do we object to a reasonable amount of money invested in some of the savings and loan association deposits or shares. We believe, however, there ought to be some diversification among your savings banks and savings and loan reserves so that if you do not find it convenient to call upon any one of them for money in a hurry, others will be available.

**Income Bonds and Preferreds:**—As to income-bond investments, the field at present is very limited. From past experience we may expect the medium-grade railroad bonds to fluctuate over a wide price range. Some such issues, however, can be included where continuity of income is desired and where some risk of price moves can be accepted to achieve a liberal income.

In the case of preferred stocks, we do not feel that interest rates are yet sufficiently stabilized to warrant buying the very highest grade preferreds. A shift, for instance, in the yield on preferred stocks from a 4½% basis to a 5% basis means a drop of 10% in the price of the preferred. There are, however, quite a few good preferred stocks where we do not consider the risk excessive on which you can get a yield of 5% to 5½% in the present market. If cumulative preferred stocks are purchased, even though some dividends conceivably may be deferred, you may expect that the full dividends will be made up later. One would, of course, not knowingly buy a preferred stock where a dividend cut was evident, but out of a list of medium-grade preferreds, one is likely to include a small percent which may defer dividends under severely depressed business conditions.

**Common Stocks:**—As to commons, we prefer to avoid those stocks of companies which would be hurt badly in the event the United States were to be bombed by an alien enemy. In other words, avoid the stocks of "vulnerable" companies. We might also add that we recommend avoiding the bonds of the larger United States cities which would undoubtedly be vulnerable in the event of war. We do not mean by this that it is imperative to avoid all securities of vulnerable situations, but be sure that you do not hold more than a normal amount of them.

Furthermore, it is just as good from an income point of view to hold securities of companies located outside the vulnerable areas as it is to hold the securities of utilities, municipal bonds of vulnerable cities or companies. In other words, there are excellent alternative investment opportunities today. In the event of an impending threat of war it is probable that there would be a stampede by investors holding vulnerable securities to get out of them.

### Selectivity in Stocks

In past bull markets it has been customary for all stocks to appreciate so much that it was very difficult to find any good values. The stock market since 1946, however, has been very irregular. Quite plainly the big bulge in the Dow-Jones Industrials that took place after mid-1949 was not typical of the whole market. For example, our studies show that of 1,000 better-known stocks, 660 or 66% are still being traded at quotations below the highs recorded in 1946, while the Dow Average is still way above the 1946 high. The rise since mid-1949 has been highly selective and stubbornly concentrated in a minority of popular issues. These popular stocks have been bid up in price so that many of them look quite high in relation to earnings, assets and dividends. As our clients know, we advised profit taking in many of these, by suggesting sale of at least half commitments and sometimes the sale of entire holdings in them.

In contrast to these popular issues that have been bid up so high, there have been many stocks whose earnings and assets advanced notably in recent years. Their intrinsic values rose higher and higher, but the trading public has passed them by—so that today they look very attractive by almost any statistical measure when compared with the popular "blue ships." Therefore, we are inclined to believe that in whatever market decline may come the popular "over-priced" issues are far more likely to suffer wide and sustained breaks than are the neglected high-value stocks. We do not say that such high value stocks will rise against a declining trend, but we do believe they will hold better in a series of breaks and they will recover more easily in the rallies.

It has been from this unexploited group that we have been making recommendations for that part of the investors' program which calls for common stocks and as replacements for sales among over-priced issues. During the period ahead your holdings in under-valued stocks will be your protection against any sudden new outbreak of inflationary psychology or a war-like turn in the international situation. Your reserves and conservative securities will be your protection against a further drop in the market.

### Conclusions

Investors who do not yet have a satisfactory amount of reserves should make some sales and clinch some of their profits on any market bulges in order to have at least some money available for bargains. There are going to be some excellent buying opportunities ahead for the investor who has been building up his reserves. The market's irregularity in recent years still provides an opportunity for the investor who does not have his full quota of common stocks to add some issues that appear to be undervalued.

*An address by Mr. Smith at the Babson's Conference on Business and Investments, N. Y. City, Oct. 6, 1953.

# Return to Normalcy

**Mr. Rukeyser maintains current readjustment is primarily due to cessation of buying in anticipation of higher prices due to money depreciation on the one hand and shortage of goods on the other. Predicts money and credit will be plentiful and demand for housing will continue.**

CLEVELAND, Oct. 12—The key to the economic trend in the United States lies in a return to normalcy.

Merryle S. Rukeyser

This opinion was expressed here today by Merryle Stanley Rukeyser, economic commentator for the International News Service in an address at the Hotel Cleveland before the convention of the Ohio Savings and Loan Association.

"The current readjustment," Mr. Rukeyser said, "is primarily a retreat from fear buying based on expectation of further money depreciation, on the one hand, and shortages of goods, on the other. Henceforth affirmative customer decisions must rest on confidence, and a desire for an improved family standard of living.

"This changing theme must be recognized by home builders as well as the makers of soft goods and other products. In a well balanced and healthy national economy, replacement of durable goods will be accelerated by the style trend—the factor of obsolescence, before the physical life has been exhausted.

### Administration Promoting Flexibility

"As a phase of the national effort to get off the inflationary stilts and to touch solid ground, monetary and fiscal changes are under way. It is becoming increasingly evident that the new Administration is not seeking either dear money or cheap money per se, but flexibility and a free market. It appears that the supply of mortgage-money and other credit will be in reasonable supply."

Mr. Rukeyser pointed out that the big promoter of demand for housing has been the accelerated tempo of population growth and the zest for better living. He indicated that such demand would continue for the foreseeable future as long as the working population was employed on a high level. During episodes of readjustment, when confidence is impaired and employment curtailed, he said, the public would temporarily disobey the law of obsolescence, and make old housing do for the interim. At present, the replacement of old housing with new is much more than a matter of fashions. The new houses are functional in design, he pointed out, and are better adapted to the conditions of present day living.

### With Richard Harrison

(Special to THE FINANCIAL CHRONICLE)

SACRAMENTO, Calif.—John G. Irving has joined the staff of Richard A. Harrison, 2200 Sixteenth Street.

# Canadian and U. S. Newsprint Investment Opportunities Beckon

By HAROLD J. KING, Ph.D.

**Impressive upsurge in production and dividend trends outlined, along with attractive yields now available. Neither peace, nor war, seen by economist, as constituting "imminent threat" to this industry.**

Casting eyes Canada way, investors should not overlook the newsprint industry. It may lack the glitter and glamour of gold and oil, but it offers substantial, and most promising, investment opportunities, as evidenced by current production and dividend trends. And yields now available on common equities in this field appear very attractive, related to the degree of risk.

Harold J. King

Here is an industry (U. S. companies included) in which production has practically doubled in the past decade; the price of the product since World War II; and dividends over the past six years. Still yields in excess of 8% are indicated at current stock prices.

Even a 5.7% yield is indicated on Great Northern, which has paid cash dividends each year since 1910!

| | —Dividends— | | |
|---|---|---|---|
| | 1947 | 12 mo. to 10-1-1953 | Cur. Yld. |
| Anglo-Canadian Pulp & Paper Mills | $0.50 | $2.00 | 8.7% |
| Donohue Bros. | 0.50 | 1.20 | 8.6 |
| Great Lakes Paper | 0.13 | 1.60 | 8.8 |

Continuation of the upward surge in the general dividend trend would mean, of course, capital gains. Reinforcement of the trend is found in the upward march of the production figures.

Non residents of Canada should be aware of the 15% dividend tax applicable to them. This, of course, translates a 7% yield into a net of 6%, a handicap which must be viewed in the light of overall opportunities. Although Canadian production dominates the North American newsprint scene, the tables include operators on both sides of the border.

### Multiple Listings

It may come as a bit of a shock to some smug investors south of the border that stock exchanges are to be found in the Canadian wilderness; let alone that price differentials thereon may bear watching. As indicated below, Canadian exchanges predominate in the listing picture of newsprint common stocks.

On Oct. 1, there were 2,100 shares of International Paper transferred (in round lots, of course) on the New York Stock Exchange. It opened at 51⅛, and closed at 51¾. High for the day was 51¾; low 50⅞. The Montreal Stock Exchange had three transactions in that stock the same day. In chronological order they were: 25 shares at 50; 75 shares at 50; and 50 shares at 50¼. This date saw a differential of three-eighths of a point in the price of St. Lawrence shares between the Montreal and American Exchanges. On the former, the trading consisted of 100 shares at 30¾; on the latter, 200 shares at 31⅛. Such may offer thought food for the trader interested in juggling price differentials, odd lots, exchange rates, taxes, etc.

**North American Newsprint Production**

| *CORPORATIONS— | Production by Years (1,000 tons) 1946 | 1947 | 1948 | 1949 | 1950 | 1951 | 1952 |
|---|---|---|---|---|---|---|---|
| Abitibi Power & Paper Co., Ltd. | 612 | 658 | 681 | 673 | 686 | 716 | 727 |
| Anglo-Canadian Pulp & Paper Mills, Ltd. | N.A. | N.A. | N.A. | N.A. | N.A. | 218 | 221 |
| Anglo-Newfoundland Development Co., Ltd. | 167 | 177 | 184 | 176 | 184 | 216 | 218 |
| †Consolidated Paper Corp., Ltd. | N.A. | N.A. | N.A. | N.A. | N.A. | 862 | 830 |
| Coosa River Newsprint Co. | N.A. | N.A. | N.A. | N.A. | N.A. | 109 | 117 |
| †Crown Zellerbach Corp. | 239 | 290 | 316 | 357 | 366 | 379 | 401 |
| †Donnaconna Paper Co., Ltd. (§) | N.A. | 157 | 157 | 149 | 156 | 171 | 160 |
| Donohue Bros., Ltd. | 42 | 46 | 50 | 56 | 60 | 63 | 64 |
| †Eddy (E. B.) Co. (¶) | N.A. | N.A. | N.A. | 126 | 124 | 131 | 119 |
| Great Lakes Paper Co., Ltd. | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | 156 |
| ‡Great Northern Paper Co. | 349 | 361 | 358 | 362 | 381 | 404 | 401 |
| International Paper Co. | 687 | 689 | 709 | 759 | 774 | 801 | 823 |
| Minnesota & Ontario Paper Co. | 165 | 174 | 172 | 187 | 193 | 194 | 197 |
| Powell River Co., Ltd. | N.A. | N.A. | N.A. | N.A. | N.A. | 298 | 303 |
| Price Bros. & Co., Ltd. | 383 | 410 | 429 | 418 | 435 | 450 | 458 |
| St. Croix Paper Co. | 81 | 85 | 78 | 83 | 90 | 99 | 92 |
| St. Lawrence Corp., Ltd. | N.A. | N.A. | N.A. | N.A. | 301 | 311 | 317 |
| †Southland Paper Mills, Inc. | 98 | 105 | 133 | 149 | 159 | 163 | 161 |

*Not shown in this list are the following companies (owned by other corporations) for which no production figures are available: Bowater's ewfoundland Pulp & Paper Mills (daily capacity 1,000 tons); Mersey Paper Co., Ltd. (annual capacity 130,000 tons); and Spruce Falls Power & Paper Co., Ltd. (annual capacity 228,000 tons). Spruce Falls is jointly owned by Kimberly-Clark Corp., and the New York Times Co., which has a long-term contract to purchase all its newsprint requirements from the company.

†Production figures include other than newsprint production. Breakdown is not available. Figures for Eddy (E. B.) Co., Ltd., represent tons sold.
‡Production figures include some very minor items, along with newsprint.
§90% owned by Howard Smith Paper Mills. ¶Owned by Eddy Paper Co., Ltd.

EXCHANGE LISTINGS:

Abitibi Power & Paper Co., Ltd.: *Toronto Stock Exchange; Montreal Stock Exchange.*

Anglo-Canadian Pulp & Paper Mills, Ltd.: *Toronto Stock Exchange (Curb Section); Canadian Stock Exchange.*

Anglo-Newfoundland Development Co., Ltd.: *Toronto Stock Exchange (Curb Section); Canadian Stock Exchange.*

Consolidated Paper Corp., Ltd.: *Toronto Stock Exchange (Curb Section); Canadian Stock Exchange.*

Crown Zellerbach Corp.: *Toronto Stock Exchange; Canadian Stock Exchange; New York Stock Exchange.*

Donohue Bros., Ltd.: *Montreal Stock Exchange.*

Great Lakes Paper Co., Ltd.: *Toronto Stock Exchange; Canadian Stock Exchange.*

Great Northern Paper Co.: *American Stock Exchange.*

International Paper Co.: *Montreal Stock Exchange; New York Stock Exchange.*

Minnesota & Ontario Paper Co.: *Toronto Stock Exchange (Curb Section); Canadian Stock Exchange.*

Powell River Co., Ltd.: *Toronto Stock Exchange; Montreal Stock Exchange.*

Price Bros. & Co. Ltd.: *Toronto Stock Exchange (Curb Section); Montreal Stock Exchange.*

St. Lawrence Corp., Ltd.: *Toronto Stock Exchange; Montreal Stock Exchange; American Stock Exchange.*

**North American Newsprint Companies—Dividend Records and Current Yields**

| *CORPORATIONS— | Common Stock Dividend Record 1946 | 1947 | 1948 | 1949 | 1950 | 1951 | 1952 | Cash Divs. Pd. 12 Mos. to Oct. 1,'53 | Recent Quotation | Approx. Yield % |
|---|---|---|---|---|---|---|---|---|---|---|
| Abitibi Power & Paper Co., Ltd. | N.A. | N.A. | N.A. | †$0.33 | †$0.67 | †$1.00 | $1.00 | $1.00 | 13⅞ | 7.2 |
| Anglo-Canadian Pulp & Paper Mills, Ltd. | $0.50 | $0.50 | $0.75 | 0.75 | 1.00 | 1.80 | 2.00 | 2.00 | 23 | 8.7 |
| Anglo-Newfoundland Develop. Co., Ltd. | 0.60 | 1.00 | 1.00 | 1.00 | †1.00 | 0.60 | 0.60 | 0.60 | 7⅝ | 7.8 |
| Consolidated Paper Corp., Ltd. | 0.50 | 1.50 | 1.50 | 1.75 | 2.00 | 2.25 | 2.25 | 2.25 | 37 | 6.1 |
| Coosa River Newsprint Co. | ‡ | ‡ | ‡ | ‡ | ‡ | ‡ | ‡ | None | N.A. | -- |
| Crown Zellerbach Corp. | †0.55 | †0.85 | †1.00 | †1.00 | †1.10 | †1.55 | †1.60 | †1.65 | 29⅛ | 5.7 |
| Donnaconna Paper Co., Ltd. | 0.75 | 1.75 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.25 | N.A. | -- |
| Donohue Bros., Ltd. | †0.25 | †0.50 | †0.50 | †0.50 | †1.00 | †1.00 | 1.20 | 1.20 | 14 | 8.6 |
| Great Lakes Paper Co., Ltd. | N.A. | †0.13 | †0.53 | †0.38 | †0.57 | †1.60 | 1.20 | 1.60 | 18¼ | 8.8 |
| Great Northern Paper Co. | 1.60 | 2.40 | 2.80 | 2.80 | 3.00 | 3.00 | 3.00 | 3.00 | 52⅜ | 5.7 |
| International Paper Co. | †1.20 | †1.60 | †2.00 | †2.00 | †2.50 | 3.00 | 3.00 | 3.00 | 51¾ | 5.8 |
| Minnesota & Ontario Paper Co. | nil | 1.00 | 2.00 | 1.50 | 2.00 | 2.00 | 2.00 | 2.00 | 26 | 7.7 |
| Powell River Co., Ltd. | †0.53 | †0.92 | †0.92 | †1.12 | †1.50 | †1.52 | 1.15 | 1.30 | 23¾ | 5.5 |
| Price Bros. & Co., Ltd. | †0.38 | †0.75 | †1.00 | †1.12 | †1.38 | 1.50 | 2.00 | 2.00 | 30½ | 6.6 |
| St. Croix Paper Co. | †1.25 | †2.50 | †1.75 | †3.63 | 4.80 | 3.80 | 3.80 | 3.80 | 54½ | 7.0 |
| St. Lawrence Corp., Ltd. | -- | -- | -- | -- | -- | §1.00 | 2.00 | 2.00 | 31⅛ | 6.4 |
| Southland Paper Mills, Inc. | N.A. | N.A. | N.A. | N.A. | N.A. | 2.00 | 2.00 | 2.00 | 39 | 5.1 |

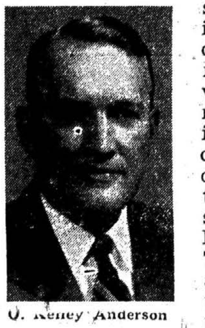
*Dividend and quotation information not available for Eddy (E. B.) Co. stock. †Adjusted for stock dividends, or splits. ‡None ever paid. §Initial dividend. N.A. Not available.

# Investment Officer's Role In Promoting Fiscal Sanity

By O. KELLEY ANDERSON*

President, New England Mutual Life Insurance Company

**Picturing the objective of life insurance investment as something more than producing the maximum income consistent with safety of principal, Mr. Anderson points to a broader role as one which aids in prevention of erosion of the dollar and thereby benefiting policyholders. Reveals Treasury's treadmill problem in meeting maturing debt, and urges life companies to aid debt refunding operations by liberally purchasing new Treasury issues.**



O. Kelley Anderson

A few days before I became an official of my company, I heard Carroll Shanks, President of the Prudential, give a challenging and disconcerting speech. It was in December of 1950, and I remember vividly how much I was impressed. He chose a very descriptive title, "Life Insurance on the Inflation Treadmill," and he pictured how the policyholders of this country were waging a losing battle in their efforts to maintain full life insurance protection in the face of inflation.

Now, it is perfectly natural for you to say, "Why in the world bring up the subject of inflation in the fall of 1953?" You can point to the fact that the dollar has not declined significantly during the past several months. Also, that the cost of living has stabilized. You can call to my attention the predictions of many professional economists and others who are telling us that the peak of the business boom has passed, that we are now facing a business decline, and that we have to concern ourselves with the prospect of deflation, not inflation. I sincerely hope, as of course all of us do, that the dollar, at long last, is becoming an honest and sound dollar.

Unfortunately, however, there are still very powerful built-in inflationary potentials in our situation, and they will be with us for a long time to come. Among them, for instance, is a law entitled "The Employment Act of 1946." It charges the government with the responsibility of promoting "maximum employment, production and purchasing power." But the popular interpretation of this law is that we should always have over-employment and boom times—where everyone, if he doesn't like his job, can tell his boss off and go across the street and get a better job. Nothing less, apparently, should be tolerated. We have a monetary and banking setup which is not automatically restrained from excessive expansion by the gold standard. Instead, our money managers and our government have tools which permit them to inflate the money supply at any time in the hope—and I stress the word "hope"—that such action will preserve over-employment; perpetuate the boom; and, incidentally, perpetuate the position of the political party that is in power.

### Federal Treasury on Special Treadmill

And last, but by no means least, our Federal Treasury is on a special treadmill of its own that is revolving extraordinarily rapidly. As a heritage of the fiscal follies of the forties, the Treasury is faced with an almost super-human task in refinancing a colossal and expanding volume of short-term government debt. Its problem is to attempt to refinance the national debt in a manner that will not start the inflationary treadmill going again by automatically inflating further the supply of money.

What has all this got to do with the obligations you life company investment officers have towards the nation's economy? What can you and the members of your finance committees and your boards of directors do to assist in the return to fiscal good health and the prevention of further inflation? Frankly, I believe, for the first time in many, many years, we in the life insurance business are in a position, individually and collectively, to make a constructive contribution by positive financial action rather than by mere words or statements.

It is often said—so often, in fact, that it has become a cliche—that the prime objective of life insurance investment should be to produce the maximum income consistent with safety of principal.

*An address by Mr. Anderson before the Finance Section of the American Life Convention, Chicago, Ill., Oct. 9, 1953.

I wonder, however, if that really measures completely either our responsibilities or opportunities under the present circumstances.

If this objective of achieving the largest income consistent with safety of principal is correct, then it is easy to meet our full responsibilities and do a good job. All we have to do is adopt a policy of acquiring high-grade securities, real estate mortgages, and real estate at the best rates obtainable in the market place. If without undue risk we can invest our new money at 4% rather than at 3¾%, we presumably should pat ourselves on our backs and say, "If we can only continue this, sooner or later we will be able to lower the net cost of life insurance."

Not for one minute do I want to belittle the advantages of attaining a satisfactory investment income. What I should like to suggest, however, is that we measure the importance of this desirable goal in broader perspective—particularly in perspective against the background of a continuing potential threat of inflation.

### Policyholders Suffer From Inflation

Since 1940, the purchasing power of the dollar has declined to approximately 53 cents. In 1951 alone the cost of living rose by nearly 10%, and continued to rise in 1952. Although the rise has now been interrupted, many well-known economists — taking note of the inflationary potentials — confidently predict that over the years ahead, we may expect the cost of living to rise at an average rate of about 3% a year. They look upon this prospect of a declining dollar with apparent calm. I don't. And I know our beneficiaries don't.

As investment men, ask yourselves what you would have had to earn for the life insurance companies you represent in order to offset the erosion of the 1940 dollar to its present 53 cents purchasing power. Could you have maintained the purchasing power of the life insurance in the hands of your policyholders or their beneficiaries through investment operations? How much additional income will you have to earn in the future to offset the further erosion of the dollar that some of our economists predict? Would you have to increase your rate of return ¼% a year, or 1%, or 5%?

You know the answer. You know that as far as your living policyholders are concerned, what you as investment men can accomplish to reduce the net cost of carrying life insurance is extremely limited. It certainly is not of a magnitude that could have coped with the rate at which the dollar has depreciated in the past, or could depreciate in the future if sound measures are not followed. As far as your beneficiaries are concerned, you know you cannot do one single thing to increase future benefit payments in order to offset future changes in the purchasing power of the dollar. No matter how brilliant your investment achievements may be, all you can do is pay beneficiaries the number of dollars specified in your policy contracts.

We always say that our policyholders' welfare is paramount in all our operations. If we mean this, and we certainly do, then we must inevitably come to one conclusion, a very simple conclusion: Whatever we can do to help keep the dollar stable will be of far greater long-term benefit to policyholders and beneficiaries than anything we are likely to achieve in the relatively restricted realm of earning the maximum number of dollars on our investments.

### Treasury Refunding Problem

A little earlier I mentioned that the U. S. Treasury is now on a rapidly-moving treadmill of its own. Let me expand on this a little, because it is the phase where I firmly believe we in the life insurance business have an unusual opportunity to help protect our policyholders' best interests. This is where our greatest obligation lies.

Because of the passage of time, and without giving any consideration to the Federal deficit, the maturities of the national debt are getting shorter. Less of the debt is suitable for long-term non-bank investors, more is becoming eligible for ownership by commercial banks. This process, therefore, is steadily creating additional potential inflationary fuel.

According to the latest Treasury statement, the volume of U. S. Treasury debt due within one year in $83 billion. One year ago it was $58 billion. In the past year alone, the short-term debt has thus increased by $25 billion. To be a little more graphic, during the coming year, the Treasury is faced with the terrific task of refinancing an average of more than $300 million of maturing debt every single business day.

In 1955 an additional $23 billion of government debt will mature, and, in the year following that, $18 billion more. The Treasury will have to run very fast in order to keep the annual volume of maturing debt and the volume of its daily refinancing task from getting out of reach and becoming unmanageable.

How is all this enormous volume of maturing short-term debt going to be refinanced? The easiest way, from the Treasury's standpoint, of course, would be to sell new short-term issues to commercial banks and to have the Federal Reserve Bank supply the necessary reserves to support the new dollars that would have to be created in the process. But, as the Treasury and the Federal Reserve have so often pointed out, during the preceding Administration as well as under the present Administration, such a method of refinancing the national debt is inflationary, and unsound. It, therefore, is certainly against the interests of our policyholders.

**A Sound Money Policy**

The announced objective of the Treasury today is to refinance the debt as it falls due in a manner that will be neither inflationary nor deflationary, in a manner that will give more orderly spacing to maturities and that will place more of the present debt in the hands of long-term non-bank investors. The broad objectives which the Treasury has stressed this year are exactly along the lines which have long been advocated by the life insurance business. Now let's see what we can do about these objectives.

The execution of the policies designed to preserve a sound and honest dollar is, unfortunately, much more difficult in practice than in theory. One essential part of these policies, the rearrangement and refinancing of our national debt, is also easier to accomplish in theory than in practice. Policies which involve curbing a boom or curtailing inflationary expansion of the money supply inevitably hurt some pepole and make it more difficult for others to carry out all their plans.

We know from experience that in a democracy, monetary management tends to be a one-way affair. Stimulation of business, wages, and profits by monetary expansion and low interest rates is always popular. By contrast, restraint through monetary contraction and firm interest rates is always unpopular, usually causing vigorous, vocal political and business opposition. For proof we need go back no farther than the events that have taken place this year. The mildly restrictive policies of the Federal Reserve, up to June, as well as the policy of the Treasury with respect to interest rates on its securities, have both been strongly criticized. They have become political, though not necessarily partisan, issues.

We now have in Washington, both in the Federal Reserve and in the Treasury, leaders who have shown the courage to take steps to preserve our dollar, despite the risk of political unpopularity. But they cannot do the job alone. They cannot do it without the help of all of us who believe as they do—and that help must consists of something more than pious statements of approval.

Responsible officials from our business have told the Treasury and the Federal Reserve time and time again that we stand for sound money. We have told them we could be counted upon for material assistance in a refunding program, provided we are offered securities whose terms are consistent with our investment requirements. In making such statements, we were not thinking in terms of the narrow welfare of our own companies. We were thinking in terms of the broad welfare of our policyholders—with the realization that a reasonable part of the savings they entrust to us can very properly

*Continued on page 31*

# Interesting Growth Situations

By CURTIS J. STRAUS
Partner, Heimerdinger & Straus
Members of New York Security Dealers Association

**Mr. Straus stresses significance of investing in good sound selective stocks having growth possibilities. Points out concrete examples of this type of securities.**

The blue-chip stocks of today were at one time just growth situations. It is wise to buy some selective stocks at their low and have them grow. Small investments in good, sound situations have made some of the greatest fortunes. Of course, I do not feel that one should put all his eggs in one basket. Any intelligent person should leave a sufficient amount of cash in the bank, invest partly in bonds and in dividend paying stocks of well established companies. However, most persons have the gambling spirit. For instance, growth situations: One should invest in such companies and just forget about it for awhile, as there is quite often sickness of growth and it might take a little longer to develop than first expected. Even if the growing is slow, many times it grows more rapidly after the majority of stockholders become a bit disgusted. The individuals getting the inside information of the company, thereby benefit, by accumulating the stock at a very low price. One should not forget that the majority of dividend paying stocks pay somewhere between 4% and 7%, while a growth stock, selling at about $3 per share might sell at $6 per share a year or two after.


Curtis J. Straus

There are many fields which will continue to grow, not dependent on either peace or war. We are a very progressive country, with new and successful ideas developing constantly. When automobiles first appeared in the market, the public thought is was too dangerous to ride in such a vehicle. However, with a little foresight, the ball started to roll very quickly and people were sold on the idea of owning a car. It was not too long after that, that the general public were thoroughly convinced that a car was a wonderful thing to have and so they got off their horses. The President of Chrysler Corp. said last month in a handsome lithographed advertising brochure: "There is no visible limit on the things you may expect and receive from Chrysler Corp. in the future." If you look into this company's past, you will note that the stock sold as low as $5 per share in 1932, and thereafter was split two for one. At the present low for 1953 at $64 there has been enough gains in dividends and increased value to illustrate my idea.

Let us now look at the present and the future. We read in the papers, for instance, about Atomic Energy, which is changing submarines, airplanes and helicopters to entirely new defense of our country. Another field is in connection with guided missiles. Precasting of concrete is a comparatively recent development. Informed contractors, architects and engineers have found that it is possible to save as much as 30% of the concrete structure over the more conventional methods.

To illustrate the recommendation to purchase growth stocks, I have in mind such companies as Doman Helicopters, whose stock is selling around $3½ per share. The future of the company holds great promise. For tomorrow, Doman engineers are designing a large-scale helicopter which it believes will be an attractive answer to certain new military requirements and to commercial transport as well. It is also engaged in the expansion of uses through the introduction of twin-engines which will enable the transporting of passengers over congested metropolitan areas.

Another company, Lunn Laminates, Inc. is in the field of producing articles of various shapes and sizes from glass fiber reinforced plastings. Price of the stock is about $5½. Their products include housings for radar, loop and detector antennae, nose and tail cones for guided missiles and many more.

Another growth situation I particularly like is Vacuum Concrete Corp., whose stock is selling around $3 per share. This company is on the threshold of the greatest growth in its history, as their more economical methods in construction are now recognized. Precasting is a comparatively recent development. Vacuum Concrete Corp. has developed the technical "know - how," showing economy, speed and superior quality in construction work. Besides the precasting operation patents, their Vacuum Lifter, results in increased earnings to the company which is increasing very rapidly.

With reference to the company's earnings, the trend is shown by it having incurred a loss approximating 11c per share for the fiscal year ending March, 1952 while at the end of March, 1953, the company shows a net profit of 16c per share and already has a net profit of 13c per share after taxes for the first five months of the present fiscal year.

Opportunity will always present itself. Many companies have hit on new ideas and products which resulted in tremendous profits for both the company and the stockholder.

# THE MARKET... AND YOU

By WALLACE STREETE

The stock market was open for business one day less this week because of the Monday holiday but that, apparently, left ample time for everyone concerned. Until some tipoff, provided by the market itself or brewed up by the daily grist of news, comes along to show what lies ahead, general caution seems to be the pattern.

* * *

Technically, the market has been acting well in that it is toying with its recovery highs rather than the September lows. The refusal of the rails to win any sort of popular following has been casting a pall over the bullish feeling. Until the carriers decide to get into the spirit, the majority opinion is that the industrials won't get too far uphill alone. That volume has been able to struggle across the million-share mark only a couple of times each in the last two weeks has been a dampening constructive sentiment, too, because decisive moves are far more likely to come on expanded interest.

* * *

### Bullish Solo by C. & O.

Some mild comfort for those who rely on microscopic market measurements was the impressive, but solo strength in long-depressed Chesapeake & Ohio after a good earnings statement. This carrier is slowly rebuilding the investment standing it once had that crumbled rather suddenly when the road had to halve its dividend back in 1950. The dividend was restored fully last year and nine-month earnings of $4.45 against the $3 annual rate undoubtedly will spur hopes. But the stock action is still conservative since it is well below the best price that prevailed in all but one year of the Depression, and it was available recently for half of the best price reached in the 1946 bull market.

* * *

There was also some stirring in the equally-laggard store stocks, the direct result of a pickup in earnings for R. H. Macy that helped the stock. This issue, too, has quite a few rungs to climb since the report came at a time when the stock was at the lowest price recorded in the last decade.

* * *

### The Erratic Aircrafts

Aircrafts have put on a fair show of stability but have had to put up with recurrent profit-taking on each advance. It has made them somewhat erratic on a day-to-day basis and even in some cases on an hour-to-hour basis, as was illustrated by the rather wide moves on each side of dead center early in the week by Boeing Airplane. Here, again, there has been plenty of caution despite the fact that it is pretty well realized, at least among economists, that the prime plane makers cannot be allowed to go through the riches-to-rags routine of previous decades, at least not as long as the threat of war is still so very much with us.

* * *

Petroleum shares have faced a plethora of uncertainties and have shown it amply in their market action. Sharp production cutbacks to get inventories back in line with demand have made them something of a guessing game as to when balance will be achieved. Some estimates put as much as half a year of curtailment ahead of them before they achieve a satisfactory working arrangement but the experts in this field are quite sure these extreme views are overly pessimistic. Naturally, any cracks in the price structure in the meanwhile will change the picture radically. In short, the issues could be pardoned for doing little under a situation where only a bold trader would operate.

* * *

### "Extra" Candidates

The inevitable Fall pastime of culling out candidates for year-end "extra" dividends is in full cry at the moment. Some of the statisticians have come up with as many as a couple of hundred companies expected to come up with a year-end extra payment. Such lists oversimplify to a degree, since year-end extras have become somewhat standard fare and the payments in many cases have grown fairly "regular" despite their designation as "extra" payments. Certainly the declaration of regular extras has lost much of its ability to spark market action recently.

* * *

In fact, some of the recent individual movements seem to bear the earmarks of investors so cautious that they sell out as soon as the latest dividend is assured. A growing list of issues have shown sinking tendencies as soon as they sell ex-dividend and Radio Corp. was a rather prominent illustration of this sort of action this week. The televisions generally, despite all the predictions that this would be their Golden Year, have been turning in a performance somewhat short of the expectations. Whatever the sales reports showed, marketwise they didn't respond to the usual pickup around World Series time and have yet to go into their holiday gift-buying cycle. The group, however, is somewhat more comfortably above their year's lows than many other classifications on the board.

* * *

### Issue Rotation

There has been little to choose among in the steels, motors and chemicals, at least as far as market action is concerned. For most it has been a case of backing and filling from one day to the other and within the groups a sort of strength rotation such as that between Allied Chemical and duPont which have been taking contrary positions on successive days without any great overall accomplishment.

* * *

The same wait-and-see attitude so prevalent in the Street has kept the motors from doing much of anything and even the run-up in Hudson Motor on a rumored merger with Nash disintegrated rather completely. This rumor remains the puzzle of the industry particularly since no denials sweeping enough to carry conviction have been forthcoming. All the "dope" stories of how, eventually, motordom's independents will have to get together to be able to compete on an even footing with the Big Three were negligible as a market influence. And the guessing on the lack of developments in the Hudson-Nash situation was that the large Dutch holdings were confusing the issues, but whether in outright opposition to the merger is not clear.

* * *

### Breath of Optimism for Steels

For the steels Allegheny-Ludlum was the week's best acting, in part because of the concentrated attention given to the company after a group of analysts were taken through it on a tour and also because of an official statement that the company would stay in the profit column even if operations receded to a rate of as low as 65%. This is one of the few recent official statements of what a break-even point would be in this industry. Most other steelmakers have stressed the huge post-war expansion expenses, and the high wage levels of today, to such an extent that the impression had grown that break-even points were now at a prohibitively high level, leaving the companies especially vulnerable on any future business decline.

[*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.*]

## National Shares Asset Value Lower

NET ASSET value at Sept. 30, 1953 of National Shares Corp., a closed end investment company managed by Dominick & Dominick, based on market quotations and after deducting the dividend of 15 cents per share payable Oct. 15 was $32.95 per share on the 360,000 shares of capital stock outstanding. The net asset value on June 30 was $33.30.

Aggregate unrealized appreciation in value of securities owned as compared with cost amounted to $3,369,840 at Sept. 30, 1953.

Net income of the corporation from dividends and interest for the first nine months of this year amounted to $290,209 and compares with $293,209 for the corresponding period in 1952. National Shares percentage of securities held in Sept. 30, 1953 compared with those held at the end of June of this year are shown in the following tabulation:

| Type of Security | Sept. 30, 1953 | June 30, 1953 |
|---|---|---|
| Common stocks | 77.7% | 78.9% |
| Preferred stocks | .4 | 3.1 |
| Bonds | 3.4 | 3.4 |
| U.S. Govt. obligations | 17.7 | 13.7 |
| Cash, receivables, etc. (net) | .8 | .9 |

# Money-Making Opportunities

By ROGER W. BABSON

**Mr. Babson, contending "most of us are dumbbells," finds greatest money-making opportunities are the result of good and persistent salesmanship. Cites examples of invention successes that were due to wise salesmanship, and concludes that opportunities in next decade will come from selling new ideas.**

When William L. Douglas of Brockton, Mass., was the world's largest shoe manufacturer, at a time when everyone wore high shoes, he was very much disturbed about the hooks which went on these shoes. At a sales convention he offered a prize of $10,000 to any salesman who would solve the problems of these dangerous hooks. One salesman answered: "Quit making high shoes, and eliminate the hooks altogether. If you will make a line of attractive low shoes, I will sell them or resign." Mr. Douglas accepted this radical wager and produced the line of low shoes, which this salesman quickly sold. Gradually, the whole industry turned to low shoes.

Roger W. Babson

### Most of Us Are Dumbbells

I often visited Thomas A. Edison at his home in New Jersey. At that time his company was manufacturing the only phonograph "records," and these were waxed cylinders. He would say to me that some day flat records would be used; but he could not get any enthusiasm amongst the trade to sell flat records. He said: "Babson, I am only an inventor, and not a salesman. The salesmen and advertising agencies will determine the future of America —not we inventors. There are enough inventions in the Patent Office now to make the United States, and, in fact, the whole world, prosperous for 50 years if there were enough men with 'guts' and vision to get these ideas working."

Edison reminded me that steam was used for power a hundred years before Watt developed a steam engine. It was discussed by university professors; but no one before had the persistence to sell the idea to the public. This was true of Whitney's invention of the cotton gin, and Fulton's building of the steamboat. I believe that these men were salesmen who saw opportunities, presented them to the public and were never discouraged by anyone saying "no."

### Long-Playing Records and Zippers

My friend, Johnson, who founded the Victor Phonograph Company, was not an inventor, but a salesman. He believed the flat record idea had a future, but, he was obliged to travel over the whole country to raise enough money to start the Victor organization. He used to complain about how "dumb" people were, unwilling to risk even their time, enthusiasm and stick-to-itiveness. His wonderful success was due to the fact that he was a salesman who could not be discouraged and would never take "no" for an answer. He was much like Henry Ford.

Yet even Johnson did not visualize long-playing records. Victor's original records could have been "long-playing." The fact that Victor for years sold the old-fashioned records also shows how "dumb" we all are. Another illustration is the zipper. When I was at the Massachusetts Institute of Technology 50 years ago an instructor outlined to me the idea of the zipper but we continued to button up our trousers in the old-fashioned way for 25 years thereafter!

### Opportunities for Salesmen

Sunday newspapers today carry many Help Wanted advertisements for "technicians—electronic engineers—mechanics." These are needed today in connection with new government orders. As a result, high school graduates are crowding the colleges for a technical education. To train now for "electronics" is much like buying stocks when the market is at an all-time high. It is another illustration of our dumbness.

The real opportunities of the next decade will be in connection with *selling* the new ideas which are now on drawing boards and in test tubes. Hence, were I a young man today, I would take a course in Business Administration. Successful salesmanship, however, is a very difficult and tedious task. It requires great courage and tremendous persistency. There are no opportunities in Business Administration for the pencil pusher or the clock watcher. Success comes not from sitting in a chair dictating letters to a blonde secretary, but by ringing door bells and wearing out shoe leather. Salesmanship offers the greatest opportunities and richest rewards; but the road is long and rocky.

## Joins A. M. Kidder

(Special to THE FINANCIAL CHRONICLE)

JACKSONVILLE, Fla. — Theodore R. Biggs has become associated with A. M. Kidder & Co., 122 West Forsyth Street. He was previously with Grimm & Co. and Southeastern Securities Corp.

## G. W. Smith Joins David A. Noyes & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—George W. Smith has become associated with David A. Noyes & Co., 208 South La Salle Street, members of the New York and Midwest Stock Exchange. Mr. Smith was formerly an officer of the First Securities Company of Chicago.

## Louis McClure Adds

(Special to THE FINANCIAL CHRONICLE)

TAMPA, Fla.—Samuel G. Hibbs has been added to the staff of Louis C. McClure & Co., 615 Madison Street.

# Banking and the Securities Market

By A. HALSEY COOK*
Vice-President, The National City Bank of New York

**Mr. Cook covers the field of commercial banks' relationships with the securities markets. Reveals complexities of financing brokers and dealers in their business. Points out banking for the securities industry is an interim job and its importance lies in facilitating the functions of the securities dealer and broker. Describes the various categories of loans based on securities as collateral and the factors which determine interest rates on these loans.**

The topic assigned to me is "Banking and the Securities Markets." Banking alone is a subject about which books are written, so I shall confine my remarks this morning to the banking of the securities industry. I notice by the brochure which has been sent to me that you have been around the Street for over two weeks and I think I may assume that you are familiar with the difference between a broker and a dealer. Perhaps it is an over-simplification to say that the banking of the securities industry divides itself very nicely into loans to brokers and loans to dealers. Essentially the difference is that a broker's loan is a loan secured by stocks and bonds belonging to the broker's customer to enable the broker to finance margin accounts. A dealer loan, on the other hand, is a loan to a dealer with the dealer's own securities as collateral.

### No Longer A Real Call Loan Market

Loans to brokers subject to immediate demand — to call — were once known as call loans—or from the banking viewpoint call money. In years past, call money was used as a medium for adjusting bank reserves and as a secondary reserve of commercial banks. These loans are still made as you know, but they are no longer call loans. Let me lay a ghost. There is no longer a real call money market in New York City although you will find the term in your textbooks. Frankly, the market just doesn't exist anymore, and I do not think we need to go deeply into the reasons for it other than to say that with the increase of margin requirements and the virtual disappearance of the margin speculator, the volume of margin accounts has been reduced substantially. Brokers' loans in 1929 ran to some $9 billion. For the past 20 years they have rarely crossed the $1 billion mark. At the present time the brokers' loans in the Street constitute a relatively small percentage of the banks' total loans and provide a comparatively small outlet for loans to the banks' own customers. Perhaps the most significant indication of the disappearance of the call money market in New York City was the discontinuance of the call money desk on the New York Stock Exchange some six or seven years ago.

The reason that a broker finds it necessary to borrow money from his banks is that he has lent his customers money to buy securities. He receives from his customers permission to rehypothecate those securites, and in due course pledges them to a bank for a loan in substantially the some amount that he has loaned to his customers.

Contrary to the custom of the old call money market, banks generally require that brokers be customers of theirs and maintain checking accounts with them. Secondly, they require as collateral against these loans a diversified list of securities. It is not customary to pledge large single blocks of securities. Thirdly, banks require a margin of about 33% at the making of the loan although minimum margin requirements are about 25%. The additional 8% permits a little room for the market to drop before a call for additional margin becomes necessary.

*An address by Mr. Cook 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, N. Y. City, Sept. 10, 1953.

### What the Margin Signifies

Right here I want to say something about margin. To any loan clerk, margin is the value of the securities in excess of the amount of the loan. Now this may not be what Mr. Webster may say it is, or what Federal Reserve banks mean in their regulations, but it is a loan clerk's working conception. In other words, if we make a loan of $100,000, the broker pledges $133,000 in securities and is required to maintain the value of the securities pledged against this loan at $125,0000 or better. The broker has no trouble in doing that because his initial requirements to his customers have been well in excess of the banks' requirements for many years.

Brokers' loans are demand loans; that is, a bank can demand payment or a broker may pay off the loan substantially, on no notice at all. I suppose that in the last 15 years some downtown banks have called a broker's loan just to make sure that the machinery for calling a loan still exists, but for most banks it is pretty hard to remember when last they called a loan. This is another indication of the disappearence of the call loan — and the market for call money.

Brokers' loans are made under what is called a continuing loan agreement by which successive loans may be made, not by signing a note, but by offering an envelope containing the securities which are listed on the outside, and signed by an authorized person in the brokerage firm. Under this agreement the broker has the right to substitute collateral freely, subject to the bank's approval. These loan agreements are all inclusive, and provide the bank with a lien on the collateral posted or pledged against that particular loan, or any other loan which the broker may have with the bank. With every broker, banks are also required to have an agreement that he will not comingle his own securities with those of his customers, and banks in turn agree with him that we will not exert any cross lien on securities of his customers to protect a deficit that may exist in a loan secured by the broker's own securities.

It is generally taken for granted that most brokers' loans are secured by listed securities; true brokers' loans against unlisted securities generally do not arise these days because brokers in turn do not lend against them in the regular course of their business.

Brokers are governed by Regulation "T" of the Board of Governors of the Federal Reserve System, and banks are governed by a similar Regulation "U," restricting their lending in substantially similar respects. However, when a broker lodges a statement with his bank that the securities he is putting up as collateral belong not to him but to his customers, and further, that his firm abides by the provisions of Regulation "T," his bank, generally speaking, is then exempted from the provisions of Regulation "U" and may lend him whatever amount it believes advisable.

### The Day Loan

I was about to tell you that all loans to brokers are secured, but there is one form of loan generally used throughout the Street that isn't. This is the day loan. A day loan is a loan that is made for all practical purposes on an unsecured basis to a broker early in the morning, which will be repaid before three o'clock that afternoon. It is actually secured by a lien or chattel mortgage on the securities which the broker picks up with the proceeds of the money you have loaned him, and specifically can be used for only two things: (1) to pay for securities for which he has already contracted, and (2) to pay for loans which are secured by stocks and bonds.

Supposing you have just sold your last year's Cadillac for $2,000 and you have bought a new Ford for $2,000. You meet a friend on the way to the Ford agency, which is the first one that you come to. You can't get you Ford until you have received the money for your Cadillac, so you say to him, "Will you lend me $2,000 to pick up the Ford and then we'll drive to the dealer where I'll get a check for the Cadillac and endorse it over to you." If he knows you well enough, he will do it, and that in essence is what a day loan is. The interesting thing about a day loan is that the charge for it is only 1% per annum. It was 1% back in the 1920's when call money sometimes went to 20%, and it was 1% when banks in New York were lending money in the '30's at less than 1%. Practically speaking, it is a fee paid for a credit in lieu of what used to be called overcertification, rather than an interest charge.

### The Dealer Loan

Let us turn now to the dealer loan, and I want to repeat that a dealer loan is made on collateral which belongs to the dealer. Its principal purposes are two-fold: (1) to finance the distribution of securities, and (2) to carry an inventory or investment portfolio. A large proportion of the loans to brokers and dealers that you see in the figures reported to the Federal Reserve Bank each Wednesday are loans to dealers. The reason that I say this is that dealers are daily clearing large amounts of securities and financing distribution of securities either through the original or secondary market. In volume dealer requirements sometimes far outweigh the brokers demand for credit.

A dealer loan is not a call loan, because implicit in the making of such a loan is seeing the deal through. The collateral in a dealer loan instead of being diversified may very well be concentrated. It may all be one issue, it may be a series of issues, blocks of bonds or blocks of stocks, listed or unlisted, industrial bonds or debentures, municipals or obligations of states or political authorities, utility bonds or debentures or rails, or it may be stocks, preferred or common. Credit requirements for lending to a dealer are the same as the credit requirements of any borrower. The old formula is the three "C's"—Capital, Character, and Capacity. There are C's that apply to a dealer.

We generally have at least the annual financial statement of a dealer and frequently we have profit and loss figures. The capital in effect is the margin on his inventory or the portfolio that he may be carrying or may be clearing.

We know, or we should know, his reputation for business dealings and his experience in the Street, which for our purposes, is character.

The capacity to repay in terms of the dealer is his ability to distribute and his acumen in buying. A house with excellent distribution, thoroughly experienced, with a good reputation, can do a great deal of business on a lesser amount of capital and obtain readily the financing to do so.

Now, the margins that are required on dealer loans vary, and again I'm going to be a loan clerk. You start with the 25% margin that is generally required on the regular Street loans. If the securities which the dealer has in his loan are sold, and he requires financing to clear them, we do not require too much in the way of margin. We may ask a mere 5% margin, we have lent the purchase price, meaning no margin at all. These margins of course are applicable to high-grade securities in the process of distribution, top credit municipals or short-term securities that are soon to be paid. The margin varies therefore between substantially zero on sold securities to 25% or so on the general run of quality securities. Lending on other securities that have a lesser market or that are not particularly well known may require a 50% margin, or more. In other words, you would lend the dealer only 66% of the market value or of the price he paid, his capital representing the balance of the purchase.

### Call Loan Rates

Now as to rates. Historically, call money rates were governed by the New York money market and the day-to-day money position of the New York banks. When banks lend money to commercial concerns the money is tied up for 90 days to six months. On the other hand, brokers' and dealers' loans are demand loans, and payment may be required at any time; therefore, in the past a rate somewhat under the prime commercial rate has ruled. Right now, the so-called call money rate is 3¼%, or exactly the same as the prime commercial rate obtaining presently in the New York market.

There have been times, however, when the call money rate has far exceeded the rate for commercial loans. It is not at all inconceivable that in a tight money market the call loan rate would again cross prime commercial rate of banks and be more expensive money even on a day-to-day basis than 90 days or six months money to business. This happened in 1929 and has happened before.

As to dealers' loans, there are two schools of thought. One holds that a lower rate should be accorded to a borrower who puts up the safer and more marketable securities. Accordingly, banks that hold this theory will charge 3¼% on loans secured by stocks or corporate bonds, etc., while charging a fluctuating rate between 1¾% and 3¼% on loans secured by governments. This is a perfectly valid theory.

Another school of thought is that rate of interest should vary according to the purpose and term of the loan. In other words, if the dealer requires money to clear his securities, he should be accorded the lowest possible rate. Holding to this philosophy, if a dealer has to pick up securities from the issuer, package them, get the numbers down, examine the bonds and generally get them ready for delivery, the loan is going to be on only for a few days and should be accorded a lower rate than the dealer who says, "I'm going to take these bonds into my inventory, and please put the loan on the back of the stove." Banks holding to this latter theory generally will charge 2¾% on what is called a short-term carry, whether the collateral is government bonds or stocks. For the most part, these loans will run or are permitted to run for a week or 10 days, and on some arbitrage loans where the arbitrage is to be completed within a reasonable time, the loan might run for a month.

Carrying this still further, the dealer who is going to inventory a new issue or carry it until the market for it comes back, add to his investment portfolio, and carry securities on a bank's money, should pay full 3¼%, or call loan rate.

Most of the banks in New York subscribe to the first philosophy; a minority subscribe to the last.

### Syndicate Loans

From time to time loans that account perhaps for the largest volume of any category are what is known as syndicate loans. This is a loan that is made not to one dealer alone, but to a whole syndicate of dealers who have allied themselves by agreement to purchase and distribute new issues or already outstanding issues to new owners. The loans are made either jointly or severally. In the first instance—a joint loan—each dealer is responsible for the loan jointly with the others, and in the second, each dealer is responsible only for his proportion of the loan. Syndicate loans as such usually do not run for any great length of time. When all of the securities are not sold at the expiration of the syndicate agreement, the loan is generally paid off and each underwriter takes down his proportion of the unsold securities for his own account, thereupon making arrangements for carrying them individually rather than allied with other dealers.

### Financing of Government Bond Dealers

This brings us to a third and sometimes very large field in dealer loans, the financing of the government bond dealer fraternity. Their inventory positions from time to time are extensive, and many of the downtown banks, being large owners of government securities, feel a responsibility to the government bond market and wish to see the government dealers well financed. Margins are lower to the government bond dealers, ranging from the discount on Treasury bills to two or sometimes three points on long-term government bonds.

Rates are low, and have varied from ¼ of a point below the rediscount rate, to a full point above the rediscount rate, depending on the money positions of the banks that finance this market. Some banks maintain a special low rate through temporary tight money situations, and raise this rate only when the whole structure of rates is rising. Other banks, using a rate that fluctuates from day to day, invite government bond loans by lowering their day-to-day rate, or encourage pay-offs by raising their rate.

In tight money markets, banks many times borrow large sums at the Federal Reserve Bank to lend the government bond dealers at a fraction of a point over the rate that they pay at the Federal Reserve Bank. The volume of these loans changes from day to day as the dealers' attitude toward the government bond market changes. It may be very high, and has been over $2 billion within the last five or six years; on the other hand, this year the volume of loans to dealers on government bonds has been at times under $150 million in the New York market.

The mechanics of lending dealers either on governments or other securities is substantially the same as lending to brokers. Both borrow under the continuing loan agreement with the banks.

For the most part, dealer loans are exempt from the regulations by reason of being made on securities exempt from the regulations of the Federal Reserve Board, or on securities not being distributed through the medium of an exchange, which are specifically exempted from the same regulation.

We have covered in this half hour or so a prety broad field and a rather professional one. I hope that by reducing some of the complexities of the business to broad principles you have perhaps a better understanding of how the securities business in Wall Street is financed. Banking the securities industry is not an end in itself but an interim job and its importance lies in facilitating the function of the dealer and the broker. The trading of old securities in a national market place by brokers, and the underwriting and distribution of new securities by the dealers is the life blood of the corporate system, which is the corner stone of the American economy.

## Earl W. Price With Stern Bros. & Co.

KANSAS CITY, Mo. — Stern Brothers & Co., 1009 Baltimore Avenue, Members of the Midwest Stock Exchange, have announced that Earl W. Price has become associated with them as a Vice-President. Mr. Price will be located in the firm's Kansas City Office, and will be identified primarily with the corporate department.

Earl W. Price

Mr. Price has for many years been active in the investment business in Kansas City, having been President of the Kansas City Bond Traders Club in 1940 and Chairman of District Committee No. 5 of the National Association of Securities Dealers, Inc. in 1945-46. He was with Stern Brothers & Co. for a number of years prior to organization of his own firm, E. W. Price & Co. in 1939. Since the latter part of 1952 he has been devoting his time to private interests.

## $75,500,000 Federal Farm Loan Bds. Offered

The 12 Federal Land Banks yesterday (Oct. 14) offered publicly through Macdonald G. Newcomb, their fiscal agent, $75,500,000 consolidated Federal farm loan bonds to be dated Nov. 2, 1953, and to mature Feb. 1, 1955. The bonds bear interest at 2¾% per annum payable on Feb. 1, 1954, and thereafter semi-annually, and are being offered at 100⅛ and accrued interest. They are being distributed on a nationwide basis through a large selling group of recognized dealers in securities.

Net proceeds from the sale are to be used to repay commercial bank borrowings and to provide funds for lending operations.

The consolidated bonds being offered are the secured joint and several obligations of the 12 Federal Land Banks. The banks are Federally chartered institutions and operate under the supervision of the Farm Credit Administration.

### With Blyth & Co.

PHILADELPHIA, Pa.—Blyth & Co. Inc., 123 South Broad Street, announce that William M. Crouse, Jr. has become associated with their sales department.

## Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Although prices of government securities were set back a bit by the report that the Treasury might use a long-term obligation in the near future to raise new money, the condition of the money market as a whole was good enough to take this development pretty much in stride. There appears to be an expanding following of the belief that money rates will continue to ease and if this is to be the case it means higher prices for government securities.

Even though most of the excitement is about the more distant maturities, the intermediates and shorts continue to account for the major part of the volume and activity. The deposit banks are moving about in these securities in a very substantial way with many switches being made between the shorts and the middle maturities and vice versa. As far as the long-term issues are concerned, it is evident that the quality of the buying is improving with strong hands taking over more of these obligations.

### Long Bonds Acting Well

The report that the Treasury is studying the possibilities of raising money through the issuance of a long-term bond took a bit of the froth off the government market. However, the reaction was not of important proportions because opinions are strong that money rates are going to ease further which eventually means higher prices for government securities ,especially in the longer-term obligations. To be sure, there could be irregularities in prices of Treasury issues and there are not a few that hold this belief because quotations have been advanced very sharply in a short period of time. Nonetheless, setbacks should not be too pronounced since there appear to be quite a number of buyers around that are ready to accumulate government securities when quotations recede.

### Institutional Buying Evident

Profit taking here and there has, according to advices, helped to improve the technical position of the longer-term Treasury obligations. It is reported that some traders and dealers have brought positions down to more workable proportions and most of these securities that were floating around in the market have gone into investment portfolios. The recent backing and filling in prices of Treasury obligations presented an opportunity to investors and they obtained some rather important amounts of the longer-term bonds. It seems as though the improved sentiment in the money markets is helping to make some of those that have been rather skeptical about the uptrend in prices a bit uneasy, with indications that some of them have already started to make additions (in not too large amounts yet) to their holdings of long governments.

Although there has been from time to time minor fill-in purchases by insurance companies, particularly the smaller ones, there are now reports that certain of the larger companies may be taking more than a look at some of the longer-term issues in the not too distant future. They are now buying selected corporate issues. It is believed that private placements will tend to slow down and if this should be the case, some of the funds of life insurance companies will most likely find an outlet again in the government market.

### Split Views on Long-Term Financing

One of the most important points of discussion in the government market at this time is whether or not the Treasury will issue a long-term obligation to raise new money. There is not too much leeway for new financing because the debt itself is pressing close to the legal limit. However, there appears to be no clear cut opinion as to what might be done because there are just as many who do not believe there will be anything but a short-term issue for new money purposes as there are those who have the opinion that a long-term obligation will be used.

### Treasury Officials' Decision Awaited

The conferences that are being held by Treasury officials to get the opinions and ideas of money market followers will no doubt have some influence upon what is done in the impending financing. The long governments have had a very fine recovery from the June lows and this has put that sector of the market in condition for financing by the Treasury. However, there appears to be quite a few opinions around that it might be rushing matters a bit to go into the long-term market at this time for new money.

### Stronger Market Expected

It is felt by some that there should be more time given to the long-term market before new money financing is undertaken because confidence and sentiment should be much stronger in the future. A real test of the long-term market after a period of backing and filling would put it on a more solid basis, according to certain money market operators. They believe that a new money long-term obligation in the near future would be crowding the market recovery somewhat.

## Wells, Elliott & Co. Formed in Minneapolis

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, MINN.—Wells, Elliott & Co., Inc. has been formed with offices in the Rand Tower to engage in the securities business. Officers are Stephenson Wells, President and Ramsey R. Parker, Secretary. Mr. Wells was formerly Vice-President of C. S. Ashmun Company and prior thereto was an officer of Mullaney, Wells & Co. of Chicago.

### New York Stock Exch. Weekly Firm Changes

The New York Stock Exchange has announced the following firm changes:

Transfer of the exchange membership of the late James F. Byrne to James F. Byrne, Jr. will be considered by the Exchange on Oct. 22.

Following the death of Harry R. Engeman, Oct. 3, the firm of James McKenna & Co. was dissolved.

## Bank and Insurance Stocks

By H. E. JOHNSON

### This Week — Bank Stocks

Operating earnings of the major New York City banks for the third quarter of the current year were at record levels and showed a general increase over those for the same period of the previous year.

Of the 13 banks that report operating results on a quarterly basis, 11 showed a gain in earnings for the third quarter over those for the same period of 1952. Among the four banks for which indicated earnings are calculated by changes in book values, two showed an increase in profits and two were lower.

For the nine months ended Sept. 30, 1953, the showing was even better. All of the banks reporting operating earnings were able to show a gain over the first nine months of 1952. Of those that show indicated earnings, two were higher, one was unchanged and one only slightly lower.

The per share results are presented in the following tabulation, showing earnings for the third quarter and the nine months to Sept. 30 in 1953 and 1952. Operating earnings are shown where available on a comparable basis, otherwise indicated earnings have been computed. Per share results have been adjusted to present capitalizations where stock dividends or splits have been made.

| | —Third Quarter— | | Nine Mos. to Sept. 30 | |
|---|---|---|---|---|
| | 1953 | 1952 | 1953 | 1952 |
| Bank of Manhattan | *$0.63 | *$0.52 | *$1.92 | *$1.49 |
| Bank of New York | 7.91 | 7.22 | 22.41 | 19.81 |
| Bankers Trust | 1.12 | 0.96 | 2.91 | 2.85 |
| Chase National | 1.06 | 0.87 | 2.79 | 2.48 |
| Chemical Bank | 1.23 | 1.02 | 3.37 | 2.98 |
| Corn Exchange | 1.40 | 1.24 | 4.05 | 3.68 |
| Empire Trust | *2.37 | *2.71 | *7.68 | *7.44 |
| First National | *5.96 | *5.20 | *17.59 | *17.60 |
| Guaranty Trust | 1.23 | 1.04 | 3.42 | 3.06 |
| Hanover Bank | *1.42 | *1.45 | *4.25 | *4.25 |
| Irving Trust | 0.45 | 0.41 | 1.26 | 1.20 |
| Manufacturers Trust | 1.46 | 1.30 | 4.27 | 3.88 |
| Morgan, J. P. & Co. | 5.39 | 5.97 | 14.94 | 15.57 |
| National City | 1.05 | 0.91 | 3.09 | 2.77 |
| New York Trust | 2.40 | 2.21 | 6.76 | 6.49 |
| Public National | 1.15 | 0.96 | 3.11 | 2.67 |
| United States Trust | 4.37 | 4.52 | 14.90 | 13.94 |

*Indicated earnings.

As is evident, the trends that prevailed throughout the first half of the year, continued to operate in favor of a rising level of operating earnings. Higher loan volume and rising interest rates were the important factors accounting for an increase in gross income. The gain in this total was more than sufficient to absorb an increase in wages and other operating expenses.

As a result operating income before taxes was substantially higher. This in turn required a large increase in the provision for taxes. In most instances this was the most significant item in the statement of operating earnings and frequently was the determining factor as to how much of the gain in operating results was carried through to final net income. Also, the handling of the tax account with respect to security transactions was an important consideration in determining the reported earnings. Regardless of the tax factors, however, the banks as a group reported better operating earnings.

Based on the results achieved so far and the current prospects, the banks look forward to a continued favorable operating trend in the final three months. Present indications are that most of the major institutions will be able to report record earnings for the year.

Tax accruals including provision for an excess profits tax liability may limit the final gain as it has in the year to date. Nevertheless, the excess profits tax problem will be minimized in most instances by security losses so that final operating earnings should compare favorably with those of earlier periods.

### With Milwaukee Co.

(Special to THE FINANCIAL CHRONICLE)

MILWAUKEE, Wis. — William E. Bray has become affiliated with the Milwaukee Company, 207 East Michigan Street, members of the Midwest Stock Exchange. Mr. Bray was formerly with Loomis, Sayles & Co., Inc. In the past he was with Shields & Co.

### With Westheimer Co.

(Special to THE FINANCIAL CHRONICLE)

WHEELING, W. Va. — Ray F. Brandfass is now connected with Westheimer & Company of Cincinnati. He was formerly Wheeling representative for First Cleveland Corporation and in the past was a partner in R. K. Hastings & Co.

### Radcliffe With Cruttenden

(Special to THE FINANCIAL CHRONICLE)

LINCOLN, Neb. — William W. Radcliffe has become associated with Cruttenden & Co., Trust Building. Mr. Radcliffe was formerly with the First Trust Company of Lincoln.

### W. E. Hutton Adds

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, Ohio—George H. Musekamp has been added to the staff of W. E. Hutton & Co., First National Bank Building, members of the New York and Cincinnati Stock Exchanges.

### With Lovett Co.

(Special to THE FINANCIAL CHRONICLE)

LYNN, Mass.—Martin Stone has joined the staff of Lovett Company, 8 Wentworth Place.

# A Period of Business Decline Likely

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

**Business analyst, in reporting on business outlook, foresees a sharp drop during last quarter of this year in auto, steel, and nonferrous metals industry, which decline will continue into first half of 1954. Visualizes trends in 1954 almost opposite to those of current year, with considerable inventory liquidation, but without a serious depression. Finds as sustaining forces, in addition to government and policy, the growing importance of stable-type industries, which are not likely to contract production sharply.**

A. C. Babson

Outstanding feature of business prospects for the time ahead is the likelihood that we are about to enter upon a period of decline. Major culprits in the business slump will be the automobile, building, steel, and nonferrous metals industries. More important, I expect the drop to be sharp during the last quarter of this year and to continue well into the first half of 1954. Looking ahead at 1954, I visualize a pattern of business trends almost directly the opposite of that marked out in 1953. In other words, the first half of 1953 was outstanding for its high level of business activity. We look for the first half of 1954 to be more noteworthy for inventory liquidation than for inventory accumulation. Business will be weakening during the first part of next year, whereas it was persistently strong during the first part of this year.

### Uncle Sam to the Rescue

Despite the fact that I look for the last quarter this year to show a sharp contraction in business, and despite my belief that the business slide will continue into the first part of 1954, I do not, at this time, anticipate that the recession will snowball into a serious depression. In the first place, our government, by its utterances, is strongly committed to taking any action within its power to prevent a depression. We fully expect to see the government fire brigade rush to the rescue at the very first smell of depression smoke. If the first brigade used and the first equipment tried does not do the job, you can look for bigger brigades with more expensive equipment to be thrown into the battle against depression. As a matter of fact, we should not be surprised if the first anti-depression move were made in the last quarter of this year.

In addition to the fact that the government is committed against letting a depression gain headway, we must not overlook the vital importance to the Administration of the Congressional elections in 1954. With the history of the last Republican Administration, under Hoover, still fresh in their minds, today's Republican leaders are not likely to repeat the errors of 25 years ago. They fully realize that a high level of unemployment in the autumn of 1954 would ring the death knell for their Congressional hopes. Loss of legislative support would seriously handicap the Administration in its drive toward 1956. Therefore, we predict that every possible effort will be made to prevent business from tobogganing downward during 1954.

Please note, however, that we do not expect government pump-priming efforts to be able to create a new boom. We believe the pattern of business for next year will be one of early decline, which will be checked during the second year. We are definitely not anticipating a major depression in 1954.

### Babsonchart Forecast

To indicate what we look for during the time ahead in terms of the Babsonchart Index of the Physical Volume of Business, we call your attention to the fact that so far this year the Babsonchart Index has averaged around 146. Anticipating a fairly sharp decline during the last quarter, we suggest that the Babsonchart Index may average about 144 for the full year 1953. With the decline continuing into 1954, we can see where the Index might fall to the neighborhood of the X-Y Line or lower (below 130) by mid-spring of 1954. After that, we look for the drop to be checked, with the possibility of some recovery after midyear. It is quite possible that the Babsonchart Index of the Physical Volume of Business may average around 134 for 1954 as a whole. This would be very close to the average physical volume of business for the year 1952. And, certainly, no one would accuse 1952 of being a depression year!

### Sustaining Forces

Although we expect the weak sisters in the business picture to be automobiles, building, steel, and the nonferrous metals — we want to emphasize our belief that there are strong sustaining forces in our economic setup. We do not have to depend completely on the government fire brigade to rescue us from a major depression next year. Chief among these other sustaining forces is the changing nature of the American economy itself. In essence, within the American economy many stable-type industries are becoming more and more important in our total production output. For example, the food-processing industry has grown to enormous size. More and more of the total population are now dependent upon others for the food they consume. The inelastic nature of this industry, coupled with its tremendous size will produce a powerful stabilizing force of far greater importance than during any previous period when the nation has been faced with a business slump.

Other significant activities of a stable nature that have grown greatly in recent years include the electric power, petroleum, natural gas, tobacco, clothing, and paper industries. Such lines are not likely to contract sharply during a period of falling business. The very size which they have now attained in our total productive effort gives them a special power to support our over-all curve of the physical volume of business.

Furthermore, the teeming "kid-crop" will add an ever-rising crescendo of demand as they leave the play-pen stage and gambol through kindergarten, the grade schools, and on into high school and college. This great tide of youngsters will provide a highly inelastic demand for the necessities of life. Luxuries in the food and clothing lines may have a tough time of it as total business volumes sag, but the swelling mass of adolescents will provide an unbelievably powerful demand backlog.

Other sustaining forces worthy of mention include the following:

(1) Widespread unemployment compensation. No longer does the loss of a job mean automatic and absolute destitution.

(2) The inflation factor provided by continuing crop loans.

(3) The automatic inflation factor inherent in our income tax system. As business declines, incomes will fall—and taxes with them—both personal and corporate. Government expenses will hold high, resulting in automatic and rising deficit financing.

(4) Tax cuts scheduled for 1954, plus the likelihood of future tax relief through revision of current repressive tax laws.

(5) Heavy supply of "E" bonds and other savings.

(6) A credit base that is still capable of expansion at the will of the money managers.

(7) In no other period of declining business have we had the powerful sustaining force of heavy defense outlays. This "new industry" promises to hold at a high level during 1954. It may even be augmented by expanded appropriations for civilian defense and improved homeland radar and guided missiles networks.

Adding all the above-mentioned sustaining forces to the government's avowed intention of fighting depression, we come up with the conclusion that the months ahead may see business decline, but they will not see business chaos.

### Industry Forecast for 1954: Probable Output Compared With 1953

(1) Activities Expected to Show Improvement Over 1953:

- Air Conditioning
- Air-Line Transportation
- Commercial Building
- Electronics
- Natural Gas
- Public Construction

(2) Activities Showing Little Change:

- Aircraft
- Armaments as a whole
- Bituminous Coal
- Cement
- Chemicals
- Electricity
- Paper
- Petroleum and Products
- Printing and Publishing
- Shoes
- Textiles
- Tobacco

(3) Activities Showing Greatest Declines from 1953:

- Automobiles
- Foreign Trade
- Household Appliances
- Industrial Construction
- Lumber
- Machinery
- Machine Tools
- Nonferrous Metals
- Railroad Equipment
- Railway Freight
- Residential Building
- Retail Trade
- Rubber Consumption
- Steel and Iron

### Money Supplies

As the Federal budget promises to come close to a state of balance in the next few months, there will be no more than a moderate, rather negligible, increase in total money supplies. Early in 1954, during the period of heavy tax collection, there may be some contraction of money totals. Pressure on corporations will remain high, as the first two instalments under the Mills Law call for the payment of 90% of the annual tax liability of corporations. Thus, there may be somewhat of a squeeze on money during the first half year. If this proves burdensome, however, we fully expect the government to take steps to maintain the flow of funds. This could be done by further reductions in member-bank reserve requirements.

### Labor

Prospects for big strikes appear to us to be less likely than in some time. As business recedes, labor will be definitely placed on the defensive. With unemployment on the increase, there will be a greater tendency to settle for fringe benefits and moderate advances. Any strikes are likely to be of short duration. Agitation will continue for revision of the Taft-Hartley Act, but the likelihood of any major change will become less as the business recession proceeds.

### Profits

We anticipate that the over-all trend of profits during the last quarter and through the first part of next year will be downward. However, the action of individual industries and companies promises to be highly selective. Generally, the heavy industries will not fare so well as they have in recent months; the food industry, on the other hand, should benefit from sustained demand and lower raw-material costs. All in all, each industry and each company must be carefully analyzed on its own merits.

### Retail Trade

As in the case of profits, the outlook for retail trade will also be selective. The heavier lines such as automobiles, household appliances, etc., will shink sharply during the fourth quarter of this year, with the downward tendency continuing into the first half of 1954. On the other hand, soft-goods lines promise to hold up well and prove a strong sustaining factor for those retailers heavily committed in such groups.

For example, when you talk about retail trade for next year, you will want to be very careful to distinguish what type of retail trade you are talking about. In particular, we are optimistic on the volume of trade which the grocery chains will do. Luxury lines will be less in demand but the staples should be taken in greater quantities than during 1953. Volume of variety-chain stores should also hold up well. Department stores and mail-order firms, heavily dependent upon hard goods, will find their sales suffering. Price competition will be keen and physical volume will hold up better than dollar sales.

### Price Prospects

Supplies of almost every conceivable type of commodity will be plentiful throughout the months ahead. This means that pressures on the downside will continue to be exerted. In particular, the world supply situation should improve further. Commodities that enter into world trade will trend toward lower levels.

This does not mean that commodity prices will slump without interruptions. From time to time, there may develop rallies which will be confusing. Such, however, should prove to be of short-term duration. The over-all trend on a long-term basis still points downward. Inventories of all types—raw materials, in process, and in consumer hands—are sizable. It would not surprise us if considerable liquidation of inventories should take place in the next six to nine months. Purchasing agents are well advised to proceed with caution.

### Living Costs

With the long-term price trend headed for lower levels, there should occur further easing in living costs, particularly in the food and clothing divisions. Also, the rising tempo of competition in automobiles, petroleum, and building suggests lower transportation and housing costs. However, it should be observed that controlled rents have been abnormally low on a long-term basis. These promise to rise further as a readjustment more in line with ballooned building costs takes place. Thus, the degree of relief which consumers as a whole can expect will be rather small. About the best that can be said is that, with the exception of rents, somewhat lower levels will be seen in the cost-of-living index.

### Failures

Both the number and dollar value of business failures have climbed sharply during 1953. The rise, of course, has been from abnormally low levels. Thus, the percentage gains appear awesome. Nevertheless, we expect the rise in failures to continue and perhaps make headline conversation during the first part of 1954.

### Real Estate

In our opinion, the peak of the real estate boom has been passed. Demand should recede further during the year ahead. Home building has already declined, and we look for pressures here to continue on the downside. However, this is probably one field where the government will make a big effort at revival in the event that the Administration feels something must be done to halt the business downslide. This is a likely field for early government pump-priming.

Industrial construction also promises to recede next year. Commercial installations, however, will hold up well and there is a good chance for expansion in municipal outlays for schools, hospitals, roads, etc.

Furor caused by the Russian H-Bomb will continue to exert pressure on urban centers. Even suburban areas, once considered a safe refuge, will now become suspect. If the government pushes a civilian defense project next year, publicity will beckon many a suburbanite toward the fringes that might have been considered remote only a few years ago. The close-in suburbs may suffer at the expense of the fringe areas. The results could be a counter-trend improvement in the more remote suburbs of large cities.

### Foreign Trade

Marked improvement in the economic condition of many foreign nations is a fact which cannot be overlooked in estimating the outlook for foreign trade. Many nations are far less dependent upon the U. S. dollar than was the case a few short months ago. We see no early revival of the former trend and feel that exports will suffer a further moderate decline next year. The only thing that could prevent such a situation from developing would be an unexpected rise in military shipments. Also, in the case of imports, we cannot expect an increase here as they have been moving in such high volume. However, we do not look for more than a very moderate cut in total import volume for the year ahead.

### Conclusion

Despite our position, stated above, that we anticipate nothing worse than a business recession during the time ahead, we feel that our analysis of the situation would not be complete without a word of warning. Once the shadow of a business slide ap-

*An address by Mr. Babson at the Babson's Conference on Business and Investments, N. Y. City, Oct. 6, 1953.

pears, no one can be quite sure that it will prove to be of only moderate size. The cloud on the far horizon—"no bigger than a man's hand"—may turn out to be the death-dealing tornado. The wisp of smoke may presage the holocaust.

Hardly had the Democratic Administration finished boasting about the business recovery from 1932 to 1937 ("we planned it that way") when it was engulfed by one of the swiftest tumbles in all economic history. Today, as we contemplate the long period of Cinderella-like good times that we have enjoyed, we are reminded of the old Teutonic adage that "trees don't grow to the skies." We can at least wonder about the effectiveness of the current Administration's stand that it will move swiftly and powerfully to stem any economic slump. And we become somewhat uneasy when we remember that in the history of the earth no political power has yet proved that it can bring perpetual prosperity to its subjects.

So, when we speak of the government's will to do or die, when we stress the powerful sustaining forces still extant in our economy, we must let you know that we do have our doubts. When it is time for a slide of indefinite proportions to take place, it is far wiser to count on a depression than it is to hope that it will not take place. It is better to have the insurance and not have the fire, than it is to have the fire and not have the insurance. If you are wrong on the upside, you stand to lose only an opportunity. But when you are wrong on the downside, you can be terribly hurt.

Far better, then, to heed the fact that the storm signals are up. They foretell its approach, though they cannot accurately measure the size of the impending disturbance. The wise skipper will prepare for worse than he expects, so that he may safely ride through whatever impends. Then he will be ready to take full advantage of clearing skies when the danger is passed.

## Engwis Representing North American Secs.

CHICAGO, Ill. — North American Securities Company has announced the appointment of E. M. Engwis as wholesale representative in the Chicago area with headquarters at 135 So. La Salle Street. The firm is underwriter and manager of two mutual funds, Commonwealth Investment Company and Commonwealth Stock Fund.

Mr. Engwis comes to Commonwealth with an investment background that includes previous affiliations with Shillinglaw, Bolger & Co. and the Hulburd, Warren & Chandler in Chicago.

Prior to accepting his new position, Mr. Engwis was Manager of the Bay City, Michigan office of Hulburd, Warren and Chandler.

## IN MEMORIAM

### Major John F. Higgins

The "Street" loses one of its old time investment bond salesmen with the passing of Major John F. Higgins, who for the last 16 years has been associated with the Wall Street firm of A. W. Benkert & Co., 70 Pine Street, this city, in the sale department. Major Higgins was the typical old-time salesman and had a large following of friends who respected his integrity and admired his lovable character. Major Higgins was a director of the Detroit & Mackinac Railway Co.

## $150,000,000 New Jersey Turnpike Authority Bonds on Market

### Smith, Barney & Co. heads underwriting group of 350 members. Bonds offered to investors at price of 99.50

Public offering of $150,000,000 New Jersey Turnpike Authority 3⅜% Second Series Bonds (Series B), dated July 1, 1953 and due July 1, 1988, is being made by a nationwide underwriting group of approximately 350 members headed by the investment banking firm of Smith, Barney & Co., New York City. The bonds comprise one of the largest issues of Turnpike securities ever offered to the public.

The bonds are priced to the public at 99.50%, to yield approximately 3.40% to maturity.

Net proceeds from the sale of the bonds will be used primarily for construction of an extension from the Newark (N. J.) Airport traffic interchange of the present Turnpike to the Holland Tunnel Plaza in Jersey City, N. J. The Holland Tunnel runs under the Hudson River from Jersey City to New York City. The projected extension, construction of which is scheduled to start within 60 days, will consist of a high level bridge spanning Newark Bay and an expressway extending from the bridge through Bayonne, N. J., and Jersey City to the entrance of the Holland Tunnel. Part of the proceeds will be applied to redemption of $30,000,000 presently outstanding New Jersey Turnpike Authority bonds due Jan. 1, 1958 and to finance further improvements on the present Turnpike.

The bonds will be redeemable through sinking funds commencing July 1, 1956 at prices ranging from 103% to 100%, depending upon the date of redemption. It is estimated, on the basis of probable traffic and revenues, that the bonds can be retired in their entirety through sinking fund operation by 1965. The bonds also will be redeemable as a whole at the option of the Authority on and after July 1, 1958 at prices ranging from 103½% to 100%.

The Authority is required to establish and collect such tolls, rentals and other changes as shall be sufficient to pay for operation and maintenance of the Turnpike and any Turnpike extensions, and all principal interest and sinking funds on the bonds.

Interest on the bonds is exempt, in the opinion of counsel, from all present Federal income taxes, under existing statutes.

The bonds are legal investment in New Jersey for the State of New Jersey and all its political subdivisions, departments and agencies, and for savings banks, trust companies, insurance companies, trustees and other fiduciaries.

Among other members of the underwriting group are:

Blyth & Co., Inc.
Drexel & Co.
First Boston Corporation
Halsey, Stuart & Co., Inc.
Harriman Ripley & Co., Inc.
Kuhn, Loeb & Co.
Lehman Brothers
B. J. Van Ingen & Co., Inc.
C. J. Devine & Co.
Eastman, Dillon & Co.
Equitable Securities Corp.
Glore, Forgan & Co.
Goldman, Sachs & Co.
Kidder, Peabody & Co.
Merrill Lynch, Pierce, Fenner & Beane
Phelps, Fenn & Co.
R. W. Pressprich & Co.
Union Securities Corporation
White, Weld & Co.
A. C. Allyn and Company, Inc.
Bear, Stearns & Co.
Alex. Brown & Sons
Ira Haupt & Co.
Hemphill, Noyes & Co.
Hornblower & Weeks
F. S. Moseley & Co.
John Nuveen & Co.
Paine, Webber, Jackson & Curtis
Salomon Bros. & Hutzler
Shields & Co.
Stone & Webster Securities Corp.
Becon, Stevenson & Co.
Barr Brothers & Co.
A. G. Becker & Co. Inc.
Blair, Rollins & Co., Inc.
Braun, Bosworth & Co., Inc.
Dominick & Dominick
Estabrook & Co.
Kean, Taylor & Co.
Lee Higginson Corporation
Reynolds & Co.
L. F. Rothschild & Co.
Schoellkopf, Hutton & Pomeroy, Inc.
Van Alstyne, Noel & Co.
Wood, Struthers & Co.
Ladenburg, Thalmann & Co.
Adams, McEntee & Co.
American Securities Corp.
Bache & Co.
William Blair & Co.
Coffin & Burr, Inc.
F. W. Craigie & Co.
Dick & Merle-Smith
R. S. Dickson & Co., Inc.
Francis I. duPont & Co.
Eldredge & Co., Inc.
First of Michigan Corporation
Geo. B. Gibbons & Co., Inc.
Gregory & Son, Inc.
Hallgarten & Co.
Harris, Hall & Co., Inc.
Hayden, Stone & Co.
W. E. Hutton & Co.
The Illinois Company
Aubrey G. Lanston & Co., Inc.
W. H. Morton & Co.
Wm. E. Pollock & Co., Inc.
Rand & Co.
The Robinson-Humphrey Company, Inc.
Roosevelt & Cross, Inc.
Shearson, Hammill & Co.
F. S. Smithers & Co.
Stroud & Co., Inc.
Tripp & Co., Inc.
Weeden & Co.
Dean Witter & Co.
G. H. Walker & Co.
Andrews & Wells, Inc.
Robert W. Baird & Co., Inc.
Blunt Ellis & Simmons
Boland, Saffin & Co.
J. C. Bradford & Co.
Central Republic Company
Courts & Co.
Hannahs, Ballin & Lee
Heller, Bruce & Co.
Hirsch & Co.
W. C. Langley & Co.
Laurence M. Marks & Co.
The Milwaukee Company
Newhard, Cook & Co.
Julius A. Rippel, Inc.
Stern Brothers & Co.
Chas. E. Wiegold & Co., Inc.
Wertheim & Co.
Yarnall & Co.

## Beneficial Loan Corp. Offers Common Stock

Subscription warrants evidencing rights to subscribe at the price of $24 per share for 355,976 additional shares of common stock of Beneficial Loan Corp. at the rate of one share for each 10 shares held of record on Oct. 7, 1953 were mailed to stockholders on Oct. 9, 1953. The rights to subscribe will expire at 3:30 p.m. (EST) on Oct. 23, 1953.

The offering is not underwritten.

The proceeds are to be used for general corporate purposes.

## Talmage Co. to Admit Schoenhart, Osborne

Talmage & Co., 115 Broadway, New York City, members of the New York Stock Exchange, will admit Leslie G. Schoenhart and H. Thomas Osborne to partnership on Nov. 2. Mr. Schoenhart is office manager for the firm.

### Joins King Merritt

(Special to THE FINANCIAL CHRONICLE)

PONTIAC, Mich.—Denzel T. Sheppard is now connected with King Merritt & Co., Inc., 53½ West Huron Street.

### Joins Magnus Staff

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, Ohio — William S. Magnus has joined the staff of Magnus & Company, Dixie Terminal Building.

### With H. M. Byllesby

(Special to THE FINANCIAL CHRONICLE)

LINCOLN, Neb. — Andrew L. Horn and James E. Wenger have become affiliated with H. M. Byllesby and Company, Incorporated, Trust Building.

## *Public Utility Securities*

By OWEN ELY

### Florida Power Corporation

Florida Power Corporation, the second largest utility company in Florida, serves the west central and northern parts of the state. It controls Georgia Power & Light Company, serving the lower portion of Georgia, so that the two companies form a continuous system. The parent company renders electric service to some 157,000 customers in 96 cities and towns and 150 smaller communities. The territory comprises an area of 20,600 square miles with a population of 700,000.

The more important industries in the area are citrus packing and canning plants, phosphate mining and processing and lime rock mining. In Pinellas County, and to a somewhat lesser degree in other areas served, the tourist business which reaches its peak in the winter months has a substantial effect on economic conditions. Other important activities are raising of citrus fruits and vegetables, tobacco growing, cattle raising, dairying, lumbering, naval stores, fishing and sponge fishing.

The company and its Georgia subsidiary have interconnections with Georgia Power Company and Gulf Power Company (both in the Southern Company system) whereby excess power is interchanged and provision is made for emergency relief between the two groups. The company also has arrangements with Tampa Electric Company and Florida Power & Light Company whereby surplus power is interchanged.

Florida Power Corporation seems much less susceptible to hurricane damage than its eastern and larger neighbor, Florida Power & Light. Based on such records as are available the company believes that since 1920 the total damage to company properties by reason of tropical storms of hurricane intensity has not exceeded $570,000.

The company formerly had regulatory difficulties with the Pinellas County Board extending over a period of years, but is now subject to regulation only by the Florida Railroad & Public Utilities Commission, a state-wide body set up about two years ago. The company was granted a $1,266,000 annual rate increase effective Aug. 1 to yield a 6.45% rate of return on the rate base. After allowance for Federal income taxes, this was equivalent to over 28 cents a share on outstanding common shares.

The company is currently offering rights to holders of its common stock on a 1-for-10 basis to subscribe for additional shares at a price of 24, the rights expiring Oct. 26, Following completion of this offering, and based on the July 31 balance sheet, pro forma consolidated capitalization would be approximately as follows:

| | | |
|---|---|---|
| Long-Term Debt | $65,500,000 | 56% |
| Preferred Stock | 19,300,000 | 15 |
| Common Stock | 41,500,000 | 29 |
| | $126,300,000 | 100% |

Based on shares outstanding at the end of each period, earnings and dividends have been as follows:

| | Earnings | Dividends |
|---|---|---|
| 12 months ended July 31, 1953 | $1.95 | $1.20 |
| Calendar Year— | | |
| 1952 | 1.80 | 1.20 |
| 1951 | 1.29 | 1.20 |
| 1950 | 1.62 | 1.20 |
| 1949 | 1.61 | 1.15 |
| 1948 | 1.63 | 1.00 |

The dividend rate was recently raised to $1.50, yielding 5.8% on the stock at the recent price around 26. The stock is selling at about 13.3 times the recent earnings and the dividend payout is 77%. President Clapp, in a recent talk before the New York Society of Security Analysts, expressed the opinion that earnings would approximate at least $2 a share on the increased amount of stock over the coming 12 months' period. However, an exact forecast is difficult because of a pending rate case involving Georgia Power & Light Company, as well as the question of the corporate tax return in 1954.

The company has shared in the rapid growth of Florida, recent revenues of $30 million being nearly three times as large as in 1945. While the State is noted chiefly for the rapid growth of its tourist business and the influx of retired businessmen and pensioners, industrial development is now occurring. In the past three years nearly 100 new manufacturing plants opened in the State and 62 existing plants expanded their facilities, to total investment being estimated at around $400 million. Farm development has also been rapid, and Florida was the only state in the southeast to show an increase in cash farm income for the first half of this year, the rate of gain being exceeded among all states only by New Jersey.

Practically all the corporation's large industrial users are on interruptible power contracts. Among the 854 industrial customers there are a large variety of smaller industries, such as furniture, food processing, ice and food locker plants, toy and other specialty manufacturers. Due to the rapid growth of air-conditioning, kwh. sales were greater in July this year than in January, the big tourist month; air-conditioning was used by over 26,000 commercial customers.

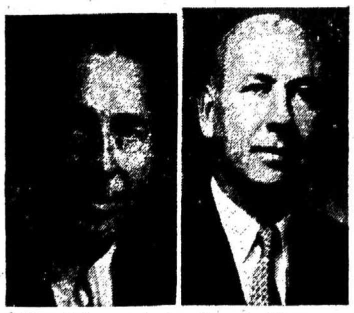
The company is one of the leaders in pioneer work with the heat pump, which it considers the greatest load builder since the advent of the electric refrigerator. Results in both performance and operating costs have been extremely satisfactory. The company also pioneers in controlled electric space heating.

In order to keep up with its rapid growth in output, the company has a huge construction program underway. The estimated 1953 program aggregates $26 million, of which $15 million was expended in the first seven months. This compares with the net system plant account of only $121 million as of July 31. The company is building two 30,000 kw. units at its Suwannee River plant and two 40,000 kw. units at the Higgins plant, and three of these units should be installed by the end of this year. This total of 140,000 kw. capacity (probably at least 10% more in capability) compares with present effective capability of 332,000 kw.

# NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED
CAPITALIZATIONS

Harold Brummer and John J. Cunliffe have been promoted to Vice-Presidents of **Chemical Bank & Trust Company, New York,** it



Harold Brummer — John J. Cunliffe

was announced on Oct. 13, by N. Baxter Jackson, Chairman.

Mr. Brummer, formerly Assistant Vice-President of the commercial banking division at 30 Broad Street, will be associated with Goeffrey V. Azoy, Vice-President in charge of that office.

Mr. Cunliffe, formerly Assistant Vice-President, and now in charge of the Times Square Office, wil become associated with F. S. Cleary, Vice-President, head of the bank's office at Fifth Avenue and 29th Street which will be re-located at Fifth Avenue and 34th Street in mid-1954.

* * *

The National Tourist Board of Costa Rica and the Banco Central de Costa Rica are the joint sponsors of an exhibition of Costa Rican products currently being shown in the 15 panoramic display windows of the **Colonial Trust Company's** principal office in Rockefeller Center, on the Avenue of the Americas at 48th Street.

The exhibition consists of a series of panels by United Fruit Company, pictorially describing the coffee and banana industries, a panel on air travel by LACSA Airlines, and another on the activities of the Ministry of Health of Costa Rica. The display also includes leather goods, porcelain figurines, embroideries, liquor and food products.

The display, which will remain in the bank windows until the end of October, was arranged by Mario Diez, Vice-President in charge of the International Division of Colonial, and Efrain Alfaro, Consul of Costa Rica in New York.

* * *

**The Columbus Trust Company, Newbugh, New York,** received approval on Oct. 9 from the New York State Banking Department to increase its common capital stock from $200,000 to $400,000.

* * *

The Board of Directors of **The First National Bank of Boston** has voted to notify shareholders that a special meeting of the shareholders will be held on Nov. 5 to vote on a proposal to increase the capital stock of the bank from the present $32,500,000 to $35,000,000 by the declaration of a stock dividend of $2,500,000. The additional $2,500,000 of capital would be provided by a transfer from undivided profits. The number of shares outstanding would be increased from 2,600,000 shares to 2,800,000 shares. The par value of the shares would remain unchanged at $12.50 per share.

If the proposed increase in capital becomes effective, such a stock dividend would entitle each shareholder to receive additional share for each 13 shares held on Nov. 5, 1953. Certificates for fractional shares would not be issued; but shareholders would have until the close of business Dec. 9, 1953, to sell their fractions or to purchase fractions to make up full shares, at current market prices, through the stock transfer department of the bank.

The directors also propose to transfer $2,500,000 from undivided profits to surplus. Such a transfer, together with the transfer to capital in connection with the stock dividend, would result in increasing the combined capital and surplus of the bank from $110,000,000 to $115,000,000.

Shareholders are being notified that the directors contemplate that an extra dividend of 40 cents a share will be declared in November of this year, in addition to the regular quarterly dividend. The regular dividend at present is $2 per share on an annual basis. If the proposed increase in capital stock becomes effective, the regular and extra dividends would be declared during the fourth quarter on the increased number of shares to be outstanding.

In making its recommendations, the board is influenced by the improved earnings of the bank during current and recent years and the continued expansion of the activities of the bank.

* * *

The common capital stock of the **First National Bank in Garfield, New Jersey** was increased $75,000 by a stock dividend and $125,000 by sale of new stock, increasing the common capital stock to $500,000, effective Oct. 1.

**Lebanon National Bank, Lebanon, Pennsylvania,** with common stock of $200,000, and **The First National Bank of Schaefferstown, Pennsylvania,** with common stock of $50,000, consolidated as of Sept. 30, under the title of Lebanon National Bank.

At the effective date of consolidation the consolidated bank had capital stock of $225,000, divided into 22,500 shares of common stock of the par value of $10 each; surplus of $450,000; and undivided profits of not less than $225,000.

* * *

Arthur V. Houle has been named Vice-President of **Sears Community State Bank, Chicago, Ill.,** and Benjamin J. Tunick has been made Vice-President and cashier.

* * *

Mr. Raymond T. Perring, President of **The Detroit Bank, Detroit, Mich.,** announced the following appointments made at the Board of Directors meeting on Oct. 6, 1953:

Harold P. Carr, Rupert C. Keais, and Harry S. Rudy from Assistant Cashier to Assistant Vice-President. William A. Busch, James W. Cunningham, Roy W. Eddy, and Roland W. Graubner to Assistant Cashier.

* * *

**The National Bank of Jackson, Michigan,** increased its common capital stock, effective Sept. 30, from $560,000 to $924,000. $280,000 of the increase was made by a stock dividend and $84,000 by a sale of new stock.

* * *

The Board of Directors of **The Hamilton National Bank, Chattanooga, Tenn.,** announces the election at a special meeting Sept. 29, of the following: H.P. Preston, Co-Chairman of the Board; J. E. Whitaker, Vice-Chairman of the of the Board; W. Roy Meyers, President; Frank Morast, Senior Vice-President; and D. B. Harris, Jr., Vice-President. All other officers remain the same.

Henry C. Carlson, formerly Assistant Manager, was recently promoted to Manager of California Bank's Washington and Vermont Office succeeding the late Sid C. Campbell, Ralph L. Templar was appointed Manager of the Sixtieth and Broadway Office succeeding R. W. Wagar who was assigned to the San Gabriel Office as Manager.

Homer E. Geis, Assistant Vice-President of **California Bank, Los Angeles, Calif.,** and Vice-President of the bank's wholly-owned affiliate, **California Trust Company, Los Angeles, Calif.,** completed 30 years of service with the two institutions on Oct. 1.

Thirty years of service with California Trust Company, wholly-owned affiliate of California Bank, Los Angeles, were recently completed by C. J. Fuglaar, Auditor. He was elected Assistant Auditor in 1930, Treasurer in 1947, and to his present post in 1950.

Herbert C. House, Assistant Vice-President in charge of California Bank's Sunset-Gardner Office, observed his 30th year with the bank Oct. 4. He started with California Bank as a teller and following a series of promotions was elected Assistant Vice-President in December, 1949.

Construction of a new building for the Glendale Office of California Bank will begin in November at Brand Blvd. and Milford Street, Glendale.

California Bank's new quarters for the Bell Office opened for business on Sept. 14. Glenn B. Gossett is Vice-President in charge of the branch and R. A. Wenzel, Manager.

* * *

**First Security Bank, Beaverton, Oregon,** a state member of the Board of Governors of the Federal Reserve System, was absorbed by **The United States National Bank of Portland, Portland, Oregon,** effective Sept. 28. A branch was established in the former location of First Security Bank.

## Yates Uranium Stock Offered by Tellier

Tellier & Co., yesterday, Oct. 14 offered as a speculation 1,999,000 shares of Yates Uranium Mines, Inc. common stock (par one cent) at 15 cents per share.

Net proceeds from the financing will be added to the corporation's general funds and will be used for exploration and development, working capital and for other corporate purposes.

These securities are being offered under an exemption from registration with the SEC in accordance with Regulation D of the Securities Act of 1933, which became effective in March, 1953. Regulation D authorizes exemption from the registration requirements of the Securities Act of 1933 for offerings of securities, not in excess of $300,000 in any one year, made by Canadian issuers or by domestic issuers having their principal business operations in Canada and this is the first offering of Canadian shares made by Tellier & Co. under Regulation D.

Yates Uranium Mines, Inc. was incorporated in Delaware on July 7, 1953, for the purpose of exploring and developing mining properties located in the north central portion of Huddersfield Township, Pontiac County, Province of Quebec. The properties consist of claims comprising 200 surveyed acres. Limited sampling showed the presence of uranium in undetermined amounts, and the company is of the opinion that a program of exploration is justified.

## W. Ewart Young

W. Ewart Young, head of McLeod, Young & Weir, and an officer of the New York affiliated company of McLeod, Young, Weir, Incorporated, passed away at his home in Toronto at the age of 67.

# Monetary Policy Controls Mortgage Situation

By CHARLES R. DIEBOLD*
President, Savings Banks Association of New York State
President, Western Savings Bank of Buffalo

**Mr. Diebold holds dominating factor which will most vitally affect the mortgage market is how successfully Federal Government will be able to carry out its sound money policy, and situation is such that lenders will be able to forecast a year ahead with reasonable accuracy the going rate of interest. Says ample funds are available for mortgages.**

For the last 20 years, government has followed a cheap money policy by pegging the rate on its bonds and by indulging in a huge spending program, both of which were bringing the country closer and closer to the danger point of inflation. The present Administration has adopted what it calls a "sound money" policy, based in part on letting the price of money rise and fall with the demand for money. Perhaps it has attempted to do this too fast. You all know what happened when the Federal Reserve entirely removed its support of Government bonds last May—how the prices dropped and how it affected the mortgage market as well as other securities. Is it any wonder that with government 3¼s selling below par, that investors have not been rushing for mortgages—especially since it has not been known at what point interest rates would stabilize. Furthermore, with the book losses on Governments already in lenders' portfolios, they were reluctant to sell bonds to buy mortgages.

Charles R. Diebold

However, now that it has become recognized that some degree of control is required to prevent too wide swings, Governments have firmed at prices three to four points above their lows, and the mortgage situation seems to be correcting itself to some degree, but it is hardly to be expected that lenders are going to rush out and make new loans at par when they can buy insured loans in the open market at substantial discounts. Further, the spread between yield on Governments and the net return on FHA's is still too close for the latter to be very attractive except at substantial discounts.

However, in my opinion, the dominating factor which will most vitally affect the mortgage market is how successfully the Federal government will be able to carry out its sound money policy and when lenders will be able to forecast with reasonable accuracy what the going rate will be a year from now.

### Ample Mortgage Money

Even so, there are ample funds available for mortgages, and loans are being made today where the terms or prices are right as compared with rates on other investments.

To get the picture straight, it is necessary to review what has happened over the last decade. As you all know, during the World War II period, two important things occurred which have affected the entire postwar era. First, with no new building except for war emergencies, a tremendous demand for housing was created. Second, savings institutions such as life insurance companies, savings banks and savings and loan associations received new savings funds in unprecedented volume, with Government bonds serving as virtually the only avenue of investment. As a result, a huge reservoir of savings funds was accumulated and was immediately available for mortgage investment. In New York's savings banks, for example, the mortgage portfolio dropped from over 50% of assets to 29% of assets, or $2,730,000,000 in 1945. Further, adding to the availability of funds since the war, new savings bank deposits in this state have increased by over $5 billion, with the same trend continuing in the other savings institutions.

All over the country, the unprecedented demand for new housing, the pressure from government to get housing rolling and the huge amount of funds available for investment all created the greatest building boom in history. The competition for mortgages by lenders plus generally low money rates resulted in a situation where the lenders were not only absorbing all costs but also paying premiums of two or more points to obtain loans.

I am not going to outline in detail developments that took place during this postwar period, such as when shortly after the Korean War started, builders rushed to get commitments on new developments in anticipation of restrictions on housing or the lowering of the peg on governments which caused temporary disorder in the mortgage market. At that time, if you will remember, many lenders had long-term commitments and by the same token faced with both losses in deposits and losses in their bond accounts. However, they worked out of it quickly, and it is sufficient to point out that the total mortgage debt which remained static at around $30 billion during the 1939-45 period had increased to $83.8 billion by the end of 1952.

In the last seven years, the savings banks in New York State have built their mortgage portfolio from $2.7 billion to over $7 billion, or approximately 50% of assets, and the increase has been at the rate of about $1 billion a year for the last three years.

Through all this boom it cannot be overlooked that builders have prospered mightily and that in the situation as we see it today, perhaps they will have to sharpen their pencils a bit so costs can be reduced and profits pared. That is not an unreasonable suggestion—especially since I understand that in some areas at least, home sales are a little sticky.

### Holdings of N. Y. Banks

I have stated earlier that there are ample funds available for mortgage investment. Let me illustrate the point. The savings banks in New York State now hold approximately $7½ billion in mortgages, split evenly between insured and conventionals. They total about 50% of asets, and with so large a proportion insured, the savings banks could build up their portfolios well beyond present levels. Furthermore, figuring amortization and pay-offs at around 8% per annum, they would have to secure at least $600 million a year just to keep even. As an added factor, deposits have been, and still are, gaining at the rate of around $1 billion a year. They may fall slightly below that rate, depending on what conditions may be, but even so, there is no indication that they will not continue to increase substantially. These, combined with the fact that most New York savings banks are paying around 2½% on deposits, would indicate that they would like to continue securing the same volume of loans that they have in recent years.

Uncertainty as to rate and the time element involved in financing new construction seems to be the principal deterrents at present. Consider, for example, the competition, when last August, General Motors Acceptance Corp. offered a substantial issue of five-year notes at a 4% rate. It doesn't make a commitment for a 10 year 4½% mortgage on new construction, to be completed a year hence, look particularly exciting, and I cannot help but get annoyed when various parties attack the lenders—or the savings banks — for being to blame for the present situation. The builders have had it fine; so have the home buyers. If each has to sacrifice a bit, I cannot see any real cause for complaint. Please understand me, I am not trying to defend the mortgage lenders. Certainly they have made mistakes along with everyone else, but that is no reason to make them the whipping boys. If we are going to do the job right, each of us—lender, builder, home buyer, title underwriter — have to scrutinize ourselves closely in the light of present-day conditions and recognize that taking off a little fat and tightening the belt a notch is the healthiest thing that could happen.

### Lenders Are Cautious

Here is the picture as I see it. Uncertainty as to the Federal monetary policy has come at a time when real estate and building has enjoyed a seven-year boom and builders have been getting all the money they wanted. It has made lenders, who for the most part are trustees of other people's money, cautious. I believe it has made the buying public cautious too. They will shop a little more carefully in the future.

But one thing is certain—the demand for new homes, for new industrial and commercial facilities is bound to continue, perhaps not as rapidly as it has in the past couple of years, but the demand will be there. Consider the high birth rate since World War II and the trend toward home ownership—especially among young industrial workers — and the way whole new areas are being opened up through express highways, airplanes and helicopters. And as long as the demand is there, financing will be available.

Therefore, I can only say to you that the present situation cannot last and that I personally am strongly optimistic.

*Extract from an address by Mr. Diebold at the meeting of the New York Association of Title Underwriters, Lake Placid, N. Y., Oct. 5, 1953.



## Geo. H. Willis Joins Paine, Webber Firm

CHICAGO, Ill.—George H. Willis has joined the staff of Paine, Webber, Jackson & Curtis, 209 South La Salle Street, as manager of their Institutional Sales department, it was announced by Reuben Thorson, managing partner.

Mr. Willis joined the bond department of Harris Trust & Savings Bank on his graduation from Cornell in 1926. Later he held positions with the Foreman State National Bank and The First Boston Corporation. For the past ten years he has operated his own investment firm, George H. Willis & Co.

# Private Enterprise Means More Than Bread Alone

By CLIFFORD F. HOOD*
President, United States Steel Corporation

**Executive of leading steel producer makes a case for his proposition that the American system of private enterprise, with all its inescapable imperfections, is not wanting in moral values and does not constitute a cult for the idolatry of Mammon. Maintains our free economic system is servant of all our liberties, and warns businessmen are doomed to failure if they make a god of materialism. Points out dependence of public for material welfare on nation's profit-motivated business.**

I strongly believe that the American enterprise system is making its contribution to more than just the material welfare of the American people, and of other peoples whose lives it touches.

Clifford F. Hood

I feel, too, that religion and mundane industrial enterprise stand in common opposition to deification of the state—stand opposed to excessive concentration of temporal power in any one set of hands, and to Godless, grossly materialistic Russian Communism.

Moreover, I think that leaders of American industry have expressed that opposition eloquently and effectively in the market place, just as the ministry has expressed it from the pulpit.

The title of my talk at the Case Convocation, "Reaching the Purple Twilight," came from a prophetic passage by Tennyson in "Locksley Hall" relating that he had "dipped into the future far as the human eye could see" and had "seen the heavens filled with commerce—and pilots of the purple twilight." The heavens today are filled with commerce. Pilots of the purple twilight are guiding incredibly swift craft through the lavender-hued immensity of the stratosphere, at heights up to 16 miles. It is mocking irony, though, that thus far most of the craft which have taken man farthest and fastest into the purple twilight, were not designed for peaceful commerce through the heavens.

Man has pushed into the purple twilight of scientific achievement by harnessing atomic power, only to create what another poet has called "our age of anxiety"—an age in which the people of a whole planet are anxiously waiting to see whether our products are used for peace or war, for good or evil, for construction or destruction.

But that state of affairs should not be viewed through the jaundiced eye of the pessimist or defeatist. It should be regarded, rather, as a two-fold challenge: the challenge to develop and apply atomic energy for the uses of peace, and the challenge to maintain our free society in the process.

As things now stand, atomic energy is a government monopoly. The government has invested an amount estimated up to $12 billion on atom-splitting facilities and manufacture of the bomb. The government not only owns the tools of atomic production, but every gram of fissionable raw material, too.

I am not for a moment implying that the government should surrender to private enterprise the secret of atomic energy for repulse of an aggressor, if that should become necessary. But I am saying that if the government retains this monopoly while the application of atomic energy to industrial production and transportation broadens, it will become the greatest monopoly of all times. I do not know how, under those circumstances, the freedoms that are essential to a free people can escape being engulfed. Safely guarded control by government of atomic energy for defense—yes. But government control of atomic energy for application to civil life—a thousand times no! That would be too great a concentration of power for human freedom to survive.

Freedom from oppressive power is, of course, the birthright of every American, as it should be of every one created in the image of God. Inseparable from human rights is, I believe, the property right—the right to acquire lawfully and lawfully to hold property. I am thinking of that not so much in terms of corporate property, as of individuals' property. For if property rights are not protected as human rights, the physical property representing the home can be invaded by the profane, impersonal hand of the state, and the sanctity of the family violated. Has that not been true in all cases where modern despotism—Communism, Fascism, Naziism—have held sway?

### Right to Property Must Be Safeguarded

The property right, as a human right, must be safeguarded for the protection of a free press, to offer another example. There cannot be, as I said in my Cleveland speech, any free press without free presses—publishing and printing establishments owned by individuals, unsubsidized by any political or economic interest, and dependent for existence wholly on the confidence of their readers. Advertising of the products and services of private enterprise supplies a large part of the revenues of the free American press. But the only way a publication can attract those revenues is to maintain the confidence of a sufficiently large body of readers to make the advertising financially worth while. Thus, private enterprise serves the cause of an important freedom, freedom of the press, but in no sense subsidizes the organs of free expression.

The point I desire to stress is that our free economic system, built literally and figuratively on private property, is a servant of all the rest of our liberties. But I certainly do not want to overstress that point, for I believe that above and beyond political and economic liberties lies the need of a positive moral faith. While our competitive system of American enterprise, with its wide—and wise—dispersion of power and decision, makes individual freedom a reality, belief in individual freedom must be founded on true religion. That belief should, in a profound sense, undergird any form of social organization.

I would not be so pretentious as to pose before you as moralist or theologian. I am merely a businessman and, like all of you, a democratic citizen—a citizen who believes that human needs cannot be satisfied by control of the physical environment alone; who believes that before we can hope to achieve the purple twilight of attainment, we shall have to fall back upon the tried and homely virtues which have made us great as a nation. We must, in humility and sincerity, admit a Power higher than ourselves from Whom is derived a positive moral code giving our lives meaning and a sense of purpose that cannot be measured in terms of material achievement.

### Must Not Make a God of Materialism

Those who, like myself, tread the secular walks of life, must consciously realize every day that if we make a god of materialism, if we seek personal gain by deceit, and if we place power above probity, we are doomed to failure as individuals. We must, as individuals and as a free people, make up our minds that integrity, respect, and moral courage cannot be bought or sold in the market place or in public office, or we are doomed to failure as a nation.

Mere quantity is not, of course, any substitute for quality, whether it be in religion or in the products of a steel mill. But it is encouraging to receive, as I did recently, statistical evidence that the church is flourishing. (I probably ought to confide in you, parenthetically, that if I didn't bring in a few statistics, I might be summarily expelled from the campus of industrial management.) Seriously, though, it was most pleasing to obtain only a little more than a month ago the report by the National Council of Churches of Christ in the U.S.A. showing that church membership had soared to a new high or more than 92 million at the start of this year. That is 59% of the total population, close to three out of every five men, women and children in the United States.

Unless I misread many signs around me, qualitatively, too, religion is experiencing something of a renaissance. These signs are, I devoutly hope, reliable indications that we are emerging from what I called in my talk at the Case Tech Convocation a period of unbelief, of insistence that everything be explained rationally and reduced to formula, with nothing left to Faith and Hope.

### Present Economic Activity in a Bustling State

In the field of economic activity, the nation, as you know, has been in a bustling state. The Department of Commerce at the first of this month reported that employment in the United States had risen to a record level of almost 63½ million. "Never before in our history, so far as figures are available," said the New York "Times" in an editorial a few weeks ago, "have so many people been working and earning so much." The "Times" counseled that we pause and "savor the good flavor of the present."

I dislike to use averages in respect to human beings, because there is no "average" human being. I know that in United States Steel we do not produce steel by the employment of averages; it is produced by human beings, each of whom we respect as an individual and in each of whom we try our level best to encourage a sense of personal worth. Also, averages are not without their dangers, as is illustrated by the story of the statistician who was drowned trying to wade across a river with an average depth of 3½ feet. I am, however, going to use an average figure that I believe can be properly applied in a way of interest to all of you.

We know that, on the average, there are two and ninety-four one hundredths persons in the family of each of the more than 300 thousand employees of United States Steel. This takes into account the single, self-supporting persons and the many cases of older workers and their wives whose children have formed their own families, as well as the larger family groups.

The same average is about correct, I would think, for the size of the families of all the 18 million persons employed in the enterprises embraced in the manufacturing and mining category of the Bureau of the Census. That would mean, then, that the component of our economy of which U. S. Steel is a part, directly supports about 53 million men, women and children. Since the families of persons employed in the manufacturing and mining industries are, not average, but representative, I believe we may safely assume that, as is the case with the whole population, 59% of their members belong to one or another of our religious bodies. That comes to approximately 31½ million church members among the employees of manufacturing and mining and their families — more than one-third of the total church membership in the nation.

Mind you, that calculation covers only the branch of economic activity with which I am most familiar. If it were projected to include the employees of all forms of profit-motivated urban business and industrial enterprises, it would show that between 70 and 75 million of those employees and members of their families belong to religious bodies.

### No Hostility Between Church and Business

I have developed these figures to give you an idea of how large a percentage of your future parishioners are likely to be dependent for their material welfare on this country's profit-motivated business and industrial concerns. I have presented those figures as a prelude to saying that I have been distressed at times in the past to find some members of the clergy taking a disparaging attitude toward our economic system—because it is profit motivated. I believe they have been wrong. As I reverence the faith instilled in me by my forebears, I say to you that I see nothing antagonistic, nothing hostile, between the objectives of the church and of those who are directing American industrial activity. I believe a disservice to good-will among men is done by any member of the clergy who speaks as if an alliance between the church and labor, to the exclusion of management and, inferentially at least, against management, were a natural thing. I believe that no one or two segments of our society possess exclusive concern for the all-around well-being of the American people. And surely labor, no less than management, uses a dollars-and-cents yardstick as one measure of progress.

In our system—and a better one has yet to be proven in practice—an industrial enterprise must make an adequate profit in order to survive; in order to provide the necessities of life for those whom it employs and their families; in order to provide reasonable compensation to hundreds of thousands of individuals who have supplied capital without which jobs cannot be created. But those who bear the responsibility of directing industrial enterprises, such as U. S. Steel, do not regard seeking after adequate profit as an end unto itself, a worshipping of the golden calf. They regard profit as the sparkplug in our industrial mechanism, a mechanism which has raised the American people to the highest level of material well-being in all history.

Is that bad? Is that to be despised?

### Don't Condemn Material Comforts

We believe that provision of men's material needs and the provision of creature comforts do not warrant anyone's condemnation. I would be the first to say that the endeavor to improve men's material lot cannot bring with it assurance of personal morality or godliness. But I believe that as men are better able to house and educate their families, as their material needs are better fulfilled, their spirit is nurtured because they have, if only in a material way, proved to themselves their individual worth.

I believe that as our system of enterprise has elevated the material well-being of the people, it has reduced the competition for bare survival, a condition which makes man more akin to animal than to his Maker.

Is that bad? No, I think that could hardly be called an un-Christian attribute of our American system of private enterprise.

I consider it unjust and uncharitable to imply that there is something inherently impious about a desire to provide, through our system of private, profit-motivated enterprise, a better housed, a more healthfully fed, and a more soundly educated America. To imply that is to suggest the corallary: Poverty automatically begets piety. We all know that that isn't so, or the Bowery and the shoddy "Skid Rows" of our large cities would be centers of saintliness, whereas they are refuges of the indolent and of those tragic human wrecks who haven't been able to make the grade in adjustment to society.

### Free Enterprise Without Sacrifice of Individual Dignity

I believe that our system of enterprise has elevated the people's material well-being without sacrificing individual dignity or self-respect. Quite the contrary, it has striven to safeguard and enhance them.

Is that bad?

It is not out of a desire to exact the last possible ounce of toil from its workers that industry carries on personnel programs designed to place employees where they will be of maximum usefulness and where they will be performing, as nearly as practicable, the kinds of work they like. Of course industry wants its employees to be efficient, for through efficiency industrial productivity is increased, the unit cost of producing a given item of goods or a service is reduced, and that product or service is brought within the means of more people. But responsible industry is also imbued with a desire to build up its employees' sense of adequacy and their feeling of being able to give the best that is in them to their jobs. We believe this is of considerable social value, for the attitude of the employee who is doing what he likes to do, and feels he does possess status in his own eyes and in the eyes of his employer, is likely to be reflected in consideration toward his fellow men, rather than in the rebellion of the malcontent against people and moral law.

Some years ago, the man who now holds the position of Vice-President—assistant to the President of United States Steel Corporation (Mr. E. E. Moore), was General Superintendent of our South Works in the Calumet district of the Greater Chicago industrial area. He observed a disturbing condition among a good many young men who joined the South Works personnel. Those young men possessed the temperament and potential ability for steel industry employment. But they said they felt hampered in their occupational progress because they had taken high school courses which were largely or wholly academic. Some of them

*An address by Mr. Hood to the Students and Faculty of Western Theological Seminary, Pittsburgh, Pa., Sept. 30, 1953.

showed resentment at being required to start at the bottom rung of steel industry employment. They thought that did not befit holders of high school diplomas. Unfortunately, they did not possess the kind of training enabling them to start higher up the ladder and advance as rapidly as they thought they should.

Because he felt human values were being wasted, Mr. Moore, with the approbation and encouragement of the officers of U. S. Steel, took a leading part, in cooperation with clergymen, educators, labor leaders and local business men, in a successful campaign for the establishment of a fine vocational high school in South Chicago. That institution is not serving the ends of profit-making industry, except incidentally. It is serving society by equipping thousands of young men for more rapid advancement, and greater contentment, in the kinds of work they want to perform and for which they possess God-given talents. It is also serving the material welfare of older workers in industry by giving them an opportunity to obtain adult vocational education that leads to upgrading. That not only means higher pay, but also bolsters their sense of personal worth.

I hope you will not mistake my enthusiasm for and my belief in the American enterprise system for a missionary's zeal to convince you that we of industry go around clad in Galahadian armor; we frequently stumble on our feet of clay, but I want once again to assure you that we are sensitive to more than an impersonal balance sheet.

If I may, however, figuratively put on a non Galahadian armor—and some of U. S. Steel's stainless products could be tailored into a mighty serviceable suit of it, to inject a crassly commercial note—there is one dragon I would like to slay. That is the idea, held even by some economists, that the heavy industry of the nation feeds on war, grabs prodigious helpings of profit from a war economy.

In war, employment expands and production swells; but with the enormous rise in taxes to pay for the grim business of war that is so wasteful of life and substance, profit rates shrink. And in war, and afterward, so much of the individual's income goes to pay for the war machine. I know that U. S. Steel's profit rate dropped sharply after America's entrance into World Wars I and II, and after the Korean conflict began. I have examined the records of a couple of other larger corporations which, in the fancy of some, wax fat on war. One produces explosives and chemicals used in enormous quantities in war; the other is in the aviation industry. In both cases, war reduced their profit rates.

### Free Enterprise—Best System Yet Devised

In American industry I know of no one so arrogant or irreverent as to hint that our system of enterprise has any sanction or ordination from above. We merely believe that, as a practical system of supplying men's material needs, yet preserving human dignity from political and economic tyranny, it is the best system man has yet devised. We also believe that it is a system which is still evolving, one in which there is ceaseless effort to make it better, in the quality of offering greater opportunity for personal development, as well as in its purely material aspects.

I am expressing deeply-held personal beliefs and what I know to be the philosophy of those associated with me in the administration of United States Steel Corporation, when I say this: That industry cannot exist at all without adequate profit; nor should it in our society, which is based on a division of political power among the three coordinate branches of government, and of economic power among the various segments of the economy, to the end that neither the state nor private enterprise dominates the affairs of men. But that just as man cannot live by bread alone, industry should not exist for profit alone; it should constantly ask itself whether its actions and policies are serving the general welfare and safeguarding liberty and the dignity of the individual.

In our American way of life there is, as I said earlier, a wide and wise dispersion of power. In our economic affairs, power is not only dispersed through competition among enterprises producing the same things or providing the same services. It is dispersed also through competition among enterprises making such things as steel products and those making products which people are free to choose as alternatives. In the field of services, transportation comes at once to mind. People can choose to transport their persons or their goods by rail, by air, by road or by water. And you may have read the news stories of the man who chose to take his wife on a long journey by foot, in the hope that she would thereby lose excess weight.

There is also the division of economic power between labor and management, between agricultural industry and urban industry. Just as the Constitution provides for a balance of power among the executive, legislative and judicial branches of the government itself, so one of the prime tasks of government is to maintain a fair and even balance of power among the different segments of the economy.

And in this system of ours, spiritual institutions remain sacrosanct from domination by any secular power, political or economic.

Is that a bad system? I think not.

# The British Commonwealth And Sterling Convertibility

By PAUL EINZIG

**In commenting upon a meeting of the British Commonwealth Finance Ministers this coming January, Dr. Einzig sees no likelihood of Sterling convertibility resulting from the conference. Says no plan of convertibility is likely to be put into effect until the U. S. Government decides to give its support.**

LONDON, Eng.—The Commonwealth Finance Ministers will meet in Sidney on Jan. 8, 1954. According to the official announcement the Agenda of their Conference will include three main topics: (1) Balance of payments prospects for the Sterling Area in 1954. (2) Progress of the plans for moving towards a system of freer trade and payments covering the widest possible area. (3) Commonwealth cooperation in the development of their economic resources. In particular, the timing of the next move towards the convertibility of sterling will be considered.

Dr. Paul Einzig

The British Government appears to be anxious that the news of this forthcoming Conference should not give rise to unwarranted speculation about the possibility of early convertibility. Following on the last meeting of the Commonwealth Finance Ministers at the end of 1952 it came to be widely believed that convertibility was practically imminent. As a result a strong demand for sterling developed all over the world, leading to an influx of gold. In view of the weakness of the Sterling Area gold position at the time this artificial influx was not unwelcome; even though it was largely due not to any general improvement in the situation but to unfounded rumors. At present, however, the British authorities have no wish to witness a repetition of this experience.

In the meantime it has become evident that the outward sign of an improvement in the form of a further substantial increase of the gold reserve is liable to encourage wage demands. Needless to say, in spite of this an increase of the gold reserve through a genuine improvement of the balance of payments would be more than welcome. It is felt, however, that it would not be worth while to put up with the disadvantages of wage disputes and rising cost of production through higher wages merely for the sake of a purely fictitious and passing increase of the gold reserve brought about by a speculative increase of foreign sterling balances.

Official British quarters are for this reason anxious to play down the significance of the January Conference. It is just conceivable that some devices may be decided upon to relax to some extent the existing exchange restrictions pending the decision to return to convertibility. They can ill afford, however, to go very far in that direction unless and until the United States Government decides to give effective support to the Commonwealth Plan of convertibility. And it looks as if the American decision could not now be expected until the end of 1954 or even the beginning of 1955.

Quite evidently the Washington Administration is in no hurry to commit itself. As seen from London, it appears that the Randall Commission is proceeding very slowly. Much time has been wasted waiting for Mr. Randall to return to the United States from Turkey. It is felt that if the United States authorities were really anxious to proceed with the inquiry into the Commonwealth Plan expeditiously they could either have sent someone else to Turkey or they could have made someone else Chairman of the Commission. It is true the Commission is not due to report until March 6. Even so, in view of the vast subject to be covered and the thoroughness with which American commissions of this type like to perform their task, five months are not an unduly long time.

In any event it is now regarded in London as practically certain that nothing would be done until after the Congressional Election in November, 1954. This consideration alone rules out the possibility of the January meeting deciding anything of fundamental importance concerning the return to convertibility. Moreover, even though British opinion is on the whole not pessimistic about business prospects in the United States, the prevailing view is that the outlook is now decidedly less certain than it was at the time when the convertibility plan was drafted. For this reason it is considered to be a matter of elementary precaution to await the full reactions to the improvement of the international political situation that is expected to follow a definite settlement of the Korean conflict. Progress towards such a settlement appears to be proceeding at a snail-like pace. Negotiations are likely to drag on during the greater part of 1954, so that the economic consequences of peace in Korea are not likely to become evident till early in 1955.

The moderate but persistent outflow of gold from the United States is practically the only factor favoring an early convertibility. The extent of the international redistribution of gold has been so far very modest and its continuation even at the present pace appears to be far from certain.

British internal political considerations also point towards a prolonged delay in putting the convertibility plan into practice. Since the late summer the Gallup Poll has indicated an improvement of the prospects of the Socialist Party which now appears to be in a stronger position than it was at the time of the last General Election in 1951. Although while in office, Socialist Ministers pay lip service to their ardent desire for convertibility, in Opposition they have declared themselves emphatically against it not only as a matter of expediency but also as a matter of principle. Should the Government decide to take premature steps towards convertibility they would be opposed to the utmost by the Socialists, which would not make the task any easier. For one of the conditions indispensable to the success of convertibility would be its adoption on a bi-partisan basis. The public opinion is not likely to trust sterling convertibility very far if the political party which appears at the moment to command the support of the majority of the electorate in the country, declares itself openly hostile to the idea. It would not be an unreasonable assumption that a Socialist Government would suspend convertibility. Indeed it would have to be abandoned long before the change of government, largely the result of the speculative pressure on sterling due to a widespread anticipation of such a change.

From an internal British political point of view there could be no question of restoring convertibility unless and until there are very distinct signs of an improvement of the Government's electoral prospects. This is all the more important as the Opposition, encouraged by the improvement of its prospects in the country, is likely to prove to be difficult during the new Parliamentary Session that is to begin in November. A situation is liable to arise in which Sir Winston Churchill might feel impelled to decide in favor of an early election owing to the difficulty of making progress with the Government's legislative programs in face of Socialist resistance. The mere possibility of a General Election in the not too distant future would be sufficient to rule out an early return to convertibility.

# Discusses Political Influences Affecting Securities Industry

**Edgar Scott, Partner of Montgomery, Scott & Co., Philadelphia, members of the New York Stock Exchange, addressed the Investment Women's Club of Philadelphia on Oct. 6.**

Under the sponsorship of the Philadelphia-Baltimore Stock Exchange, the Investment Women's Club of Philadelphia on Oct. 6 heard its first educational lecture of the current season. The lecturer was Edgar Scott, Past President of the Philadelphia-Baltimore Stock Exchange, and a partner of Montgomery, Scott & Co., members of the New York Stock Exchange.

Edgar Scott

The subject of the lecture, entitled "Political Influences Affecting the Securities Industry," was opened by Mr. Scott, by giving a 20-year background of the political and legislative actions, dating from the change in the national political climate in 1932. Following this political survey, Mr. Scott reviewed the legislation, beginning with the passage of the Securities Act of 1933, and subsequent legislation. He outlined the methods by which the purposes of the several Acts relating to the securities industry, passed by Congress, were expected to be accomplished. In his exposition of the subject, Mr. Scott pointed out both the good points and the bad points in the legislation. Mr. Scott, in the course of his address, remarked that the securities industry and the financial district were at first unanimous in condemning the new legislation "as terrible," but this point of view has been changed considerably during the last 20 years.

It was noted by Mr. Scott that the legislation relating to the securities market has received very little in the way of statutory amendments, but the methods of administration and the administrative decrees of the SEC have been considerably changed. He believed, however, that on the whole the administration has been good, except when "political dictation from above interfered." The speaker then went into the consideration of proposed amendments to the Securities Acts, stressing those that he considered important for a better and more equitable administration of these Acts.

From a discussion of the Securities Acts, Mr. Scott passed on to the tax laws which are a detriment to the securities industry. He named as chief deterrents to investment: (1) high and confiscatory income taxes, particularly in the upper brackets; (2) double taxation of dividends; and (3) the inequitable Capital-Gains Tax. He pointed out that these taxes were a deterrent to the increase of the number of corporation stockholders in the United States. The Brookings Institution Report estimated the number of such stockholders to be 6½ million, but there is no reason, Mr. Scott stated, why the number could not be increased to 65 million.

Commenting further on the same topic, Mr. Scott pointed out if a majority of our adult population were stockholders, it would no longer be politically advantageous for demagogues and their ilk to victimize legitimate business. This has been possible solely because owners of business are now only a small minority of the voting population.

*Continued from page 6*

# Unfinished Business of The Automobile Age

our neighbor countries of North America.

Outside, in the rest of the world, the privilege of owning a car today is progressively more limited as we go farther from home. Looking to future possibilities it may not be too fantastic to think of the automobile as a potential liberation of oppressed peoples.

I wonder if there are no countries whose political orientation might be turned right around if they were of a sudden to become possessed of just the number of used cars which are out tonight on brightly lighted lots in this country.

I wonder if Hitler's war adventure would ever have been permitted if he had made good on delivery of the Volkswagens promised the Germans whose down payments were taken.

Certainly there are vast areas of the world where intensive use of mechanical beasts of burden would remake the economy, and there are men trying to bring this about.

A visitor from India, acutely conscious of the huge gap in earning power between his people and our, asked me not long ago:

"Can you imagine the huge change that would take place in my country just if it were possible to sell your Plymouth automobile there for the same price that you sell it here?"

It's interesting to speculate on what would happen to the vast centuries-long social problems of a country like India if its people could obtain any important part of the mobility that the automobile has brought to our nation.

In a single month in this country we scrap — throw away — as many cars and trucks as the total in use in all of India.

In six months we scrap as many motor vehicles as are in use in all the vastness of Soviet Russia. How long could the police state withstand the automobile as we use it?

All this is unfinished business with a vengeance, but let's talk about things closer both in time and space.

### Dynamic Impact of the Automobile

Since World War II the dynamic impact of the automobile for social change and expansion has redoubled its force. One outstanding phenomenon has been the mushroom growth of suburbs. We thought we knew all about suburbanization, but since the war the accumulated demand for housing, a deficit of long standing, really broke the bounds of organized communities and spread across the farm lands.

We don't need to study population figures to realize how spectacular this growth has been. We can see it in the clusters of new communities around all of our big cities.

In an aside, I might point out that of all the conditions which have made the growth of suburbs posible, none is more fundamental than the passenger car and the truck. We are no longer tied down to bus routes or rail lines in selecting the place where we shall live. Our cars can take us where we want to go and our trucks can bring to us the goods we need. There are thousands of towns now that will never need a railroad depot.

In its cumulative effect, this growth of our suburbs is creating a new way of life for us, and with it, new opportunities as well as new problems. For more and more people, it is providing an opportunity for happier and healthier living. For producers and sellers it is providing new and growing markets for everything that can contribute to the convenience and pleasure of life in a suburban home—items ranging from the houses themselves to the countless necessities and gadgets we put in, on, and around them.

Business has its work cut out in satisfying the needs and wants of the ever-growing suburban market.

Yet, the growth of our cities into the surrounding countryside is far from automatic.

There are growing pains, and fairly acute cases of indigestion to be overcome. We have some facing us right around here. This zone, blessed with the abundance of water that surrounds us, cannot sprinkle lawns in a hot spell. Sewers give up in a big rainstorm. Telephone pay stations, one per block, dot some new developments where private phones are things of the future. School children do their lessons in shifts, and the tide of work-bound fathers of a morning taxes the already wide traffic arteries and makes us pray for speedy completion of the Detroit expressways.

This pressure is a phenomenon of the age, and around many a city the prospects of solution are far less good than here, where a considerable portion of foresight and intelligent energy is being expended. Mayor Cobo told me recently that completion of the now programmed water facilities of Detroit will double the flow we have and will make possible help to the communities outside.

But there is another side to the suburban migration. The explosion of our population from our tightly packed cities into the surrounding countryside puts pressure on the task of preserving the values, tangible and intangible, that exist in our large cities.

Suburbs exist and grow because they are near the city, with its concentration of industrial facilities, its great merchandising centers, its resources in people and their tremendous range of talents. Regardless of the supermarkets and department-store branches that are built in the suburbs, and they are becoming an investment measured in billions of dollars, there cannot be duplication in any one suburb of the infinite variety of goods and services available at the heart of a big city.

The health of the suburbs is bound up with the health of the city proper. The brutal fact is that in most of the great cities of America we have had under way for years a process of mortification. Commercial and residential slums have been creating serious social and economic problems.

### Blighted Areas

The property values in blighted areas have declined and thrust a terrific tax load on the healthy areas, and the cost of public services in the decay zones has greatly increased. The Public Building Administration has compiled figures showing that slum and semi-slum areas of big cities cover, on the average, about 20% of the total city residential areas. They house 33% of the population, but pay only 6% of its real estate taxes; they are the scene of 55% of the juvenile delinquency; 45% of the major crimes; 60% of the tuberculosis, and they absorb about 45% of the average city's budget for services.

The movement of city residents into the suburbs signals spread of the blight, and, consequently, of reducing taxable property values and revenue with which to combat the disease.

In the latter days of the Automobile Age it has been becoming clear that there is no longer reason for accepting this creeping decay as an incurable sickness.

Its cure can come as a by-product of practical solution of the other great disease of the cities: Hardening of the traffic arteries. We have long accepted enormous expenditures for arterial routes as an inevitable necessity, even if in many places the work still remains to be done. We are still reluctant, I believe, to appreciate that these routes must have terminal facilities — greatly multiplied parking areas handy to the destinations of workers and shoppers. But we have barely begun to see how the clearance of great traffic ways can open the way to re-creation of value in zones which without them are no longer paying their way either as residential or business areas.

The more drastic ideas for bringing these results about, involve excess condemnation and resale by the cities of the bordering property for private development, the profit going to defray the cost of the public works. The spirited and imaginative Zeckendorf has touched off plenty of controversy with that one. But even without that short-cut, can there be any question of the increased values that will develop adjoining well laid out parkways, and accessible to newly speeded routes to major destinations?

Can any of us here in Detroit doubt that the development of the river front Civic Center will force development of high quality on the immediately adjoining areas?

At present taxpayers in the cities have a stake in such restoration to spread the base bearing the costs of modern metropolitan facilities. Examples such as that set by Pittsburgh's Allegheny Conference with the renewal of the Golden Triangle and accompanying improvements are sure to become one of the distinguishing marks of the decades ahead.

These are huge activities, part public, part private, backlogs of business for the future, which seem inevitable in the continuance of the Automobile Age. They press competitively for attention as slack develops from defense, and they press behind the great postwar wave of industrial expansion and modernization.

The city expressways are just one facet of the job that lies ahead in bringing up to date the whole country's network of streets, roads, and highways.

### Need Better Highways

The automobile can only perform its full social role when it can move with dispatch; go wherever its owner is minded to go and do so without disproportionate handicaps and risks.

With nearly 60 million vehicles on the road today, it is being handicapped and badly. The country is far from fully motorized, and yet the handicap is growing year by year, day by day, as we fall further behind in one of the three components of personal transportation: the publicly provided component—the surface to travel on. The vehicle makes progress; the fuel it uses makes progress; not the road. The seriousness of the situation is accented by the growing note of hysteria present in the clamor going up over our traffic mess. And mess it is!

Stated simply the country put on a road building sprint through the '20's. It got us out of the mud and served well the car of 1925. Do you remember the car? You could only want it today out of sentimental reasons.

By 1931 the sprint was over. Some road building has gone on since; highway engineers have advanced their science, but the highway plant as a whole is very nearly an antique. If we are to avoid choking of the progress of automotive activity and use, we need a concerted and deliberate program of catching up. There's probably not less than 15 years of work involved if we are to catch up.

Here comes the conflict: there is a considerable body of opinion that thinks we have spent enough on roads and streets and that the job now is to make space by reducing the number of cars on the streets, slowing down the flow, making cars smaller and slower — in other words move backwards. Some of this is just the fixation that the good old days were better, some is desire to escape the trouble of finding solutions by putting the problem on another back, some is commendable but misdirected zeal for economy.

Not all negative views are absolute: people who want to use high-quality roads for themselves want others ousted. For instance, we have six million people making a living driving trucks. Some people would push a lot of these off, thinking that with fewer trucks less costly roads would then do the job. They ignore the inevitable loss of the economy as a whole, and to the pocket books of each of us individually, if today's nearly 10 million trucks were blocked from performing as well as they do.

Others want a national 50-mile an hour speed limit or 45, regardless of local conditions, sure that such an action would solve the accident toll. Others, with the same sureness that there is correlation between top speed and smashups despite the evidence from low-speed congested areas, would put governors on all vehicles and fix them so nobody could get out of the way of an impending pile-up. Others think a network of luxury toll roads on the routes they are interested in, will fix everything up.

There are many variants—generally they have in common an opposition to the kind of progress that people in general seem to expect. They share in placing reliance on some generalized patent-medicine approach as a substitute for common sense working at the painful multitude of researches and actions that are required.

The curious thing is that ways of getting order out of chaos, and reducing congestion and its damage, are known now. Ways of keeping accidents down are well understood: active enforcement of reasonable laws; particularly as to properly set speed limits, driver licensing and vehicle inspection; education and driver training from the schools up; intelligent engineering which includes traffic control systems as well as proper road surface. These are some proven ones.

That they work where used properly is shown by the fact that despite hit or miss application in many areas, the accident toll of today for the country as a whole is well below the rate of accidents that used to prevail, when cars moved half as fast as now, and were half as numerous.

The importance of these things is that there are obstacles to be dispelled from the public mind, and there is action to be taken if the automotive complex of activities is to continue being a sure-fire spark plug for the economy, as it certainly can be.

The thoroughly practical approach to the traffic question is to provide what the public wants to use rather than try to force people to do with less. The direct beneficiaries are the millions of people who use the roads incessantly; the secondary beneficiaries are those who profit directly or indirectly from the movement—the countless establishments that spring up to serve the public wherever there is traffic, and those that supply automotive wants. Close up on these beneficiaries are the public bodies that use the taxes produced by active business.

### Role of Government Finances

No discussion of the future from a business standpoint can get very far these days without government being prominently in the foreground.

The immensity of the public debt, the state of the budget, the potential requirements for defense against foreign threats, loom over us in such away that whatever private plans are made, their outcome cannot be independent of the big decisions in government.

We must turn to it for the future course of the defense program and the expenditures it will entail. Only Washington can measure the significance of the Russian H-bomb or compute whether the Korean War is ended or only in suspension.

If we *can* count on continued reduction of government outlays, and on a reversal of the inflationary course, the prospect still is not one of simple reconstruction. We have seen the new Administration's program at work and we should unquestionably cheer the way in which course has been changed, carefully and delicately, from the old method of manufacturing symptoms of prosperity by throwing money around, to a systematic effort at getting the finances of the country in control without standing the economy on its head. Some good minds and steady hands have been at work.

What we hope for is extension of this program into a thoroughly dynamic policy towards commerce. That has no resemblance whatever to government-in-business or regulation of every business act.

I happened to be testifying before a Congressional committee a short while ago and made a reference to the "promotion of commerce." One of the gentlemen checked me on that—the long established constitutional delegation of power is for "regulation of interstate commerce." There was no time there to develop what I meant: the inescapable fact that government cannot now be passive towards economic activity because the safety of its structure, too, depends on business being healthy. Government's take from the carrying on of commerce is so tremendously large that any indifference towards the health of business can only result eventually in common disaster. Government has to be actively interested in creating a favorable climate for employment, for buying, for selling, for making things and rendering services, and it needs to shape its policies, at the very least, so that the taxable sources will have the strength to pile in the revenue to keep the debt down and eventually reduce it.

The dilemma of the moment, between the striving towards a balanced budget and reduction of taxes, is a sobering one.

But we cannot be sure of sustaining a high level of economic activity, on a non-inflationary basis, unless there is tax relief. Last summer's disappointing postponement of the expiration of that miscalled Excess Profits Tax cannot, of course, be repeated. Its ending will help, and so will the expiration at the end of the year of the Korean increase in personal taxes, but the sounds that come from Washington about postponing or blocking a reduction in the combined corporate normal tax and surtax rates that now total 52%, have an ominous sound. We know that nothing of that sort will be done lightly, but still there has to be sometime a substantial turn downward in a tax which has so great a bearing on the costs of virtually everything people use.

Whatever each of you personally may think of the desirability of a broad Federal sales or excise tax, the indications of interest in some way to spread more equitably the excise load now being levied by the Federal Government on a few selected victims cannot fail to be good news to Detroit, whose industries have been singled out for some of the biggest chunks of this kind of revenue.

Motor vehicles, parts and tires have been picked at as have, say, mink coats and tickets to amusements. In one aspect, slightly worse: In the Truman days the mink people had on such a campaign for tax reduction that they had to advertise they would give prospective customers some protection if the tax were repealed. The motion picture people did still better this year, they got a repeal bill all the way up to President Eisenhower's veto. We have nothing but sympathy for their point of view, but also are in accord with the President's comment that a strong case can be made as well for tax relief in other industries subject to such taxes. His main reason, however, was that the Treasury could not stand the loss, which says in no uncertain terms that relief is going to be hard to get. One authority on Washington maintains that only those who make the loudest noises will get any visible improvement.

The President, by the way, noted that the motion picture people could not really blame their current difficulties on the excise tax. That is perfectly true, and yet I venture that no industry, no matter how hard pressed, is likely ever to make a clearcut case that any given tax is choking it to death. What also is obvious is that if you have difficulty getting customers, as some of them have had, and you have to collect a 20% override on your price, you can't do much about increasing your revenue per customer without tax relief.

**Inequitable Taxation**

Taxes are vastly unequal, but ride everything hard these days. It is pretty clear that even the man who pays no Federal income tax whatever is giving just about every fourth dollar to one of the tax collectors. The beneficiaries of Social Security pension checks, I am sure, do not escape.

It is the misfortune of our times that large numbers of people, and so many vocal leaders stick to the notion that, if you take off personal taxes in the lower brackets, and sock the business house and the man who makes a few extra dollars, everything is all right.

It's all a little bit like the experience some friends of ours had while collecting plans for solving the road problem. One of the suggestions offered was that the U. S. Government pay one-third, the states pay one-third, and the people pay the other third! That's the truth, so help me!

There's a lot of other legislative "unfinished business" that has to do with taking unnecessary hazards out of the way of getting things done in this country—but I for one feel strongly that none of them exceed in importance the need for progressive, step by step, reduction of the tax content of prices. We should be able to get to the place where interest in making more jobs for more people will get the capital gains tax modified, as suggested by Keith Funston of the New York Stock Exchange, and some day even to elimination of the double tax on dividends.

Anyway, a positive start on taxes is what I call a dynamic policy to promote commerce in the interest of all the people, whether they be wage earners, farmers or professors, or any other kind of tax producers.

These are some of the broader aspects of the unfinished business which we have before us affecting importantly the automobile industry, but significant equally to enterprise in general.

**The Future and the Auto Industry**

Looking far forward, our own industry expects to be affected profoundly by the technological progress all around us, and which we ourselves are helping bring about. The possibilities are far beyond computation and prediction. My company alone has 4,000 people at work in engineering laboratories, and many more on factory processes. Most of their work is due to be expressed concretely in evolution of the present vehicles—an evolution closely linked to present desires of the American public.

It is an interesting thing that in the postwar years, public preference has compelled the shelving of some small car plans; has disregarded the offer of stripped-down ultra-utilitarian cars, and has insistently registered its interest in the most wonderful and up-to-date of mechanisms and equipment.

Tastes may change, but up to now Americans are voting for the living-room-on-wheels, equipped with every labor-saving device and convenience they can get. Some pay extra for foreign sports cars as they would buy a yacht or a saddle horse; some spend small fortunes on conversions of stock models; the great majority seem to want the all-around car. They are conscious, no doubt, that one of these days they'll want one with still newer things, and it will be important to have a very salable model, appealing to another ambitious guy with only a little less money, when trade-in time comes.

It seems to be broadly expected in the industry that not only automatic transmissions but power steering will be approaching universal application before too many years. A dark horse of great potential is air conditioning. Its reception has been extraordinary. After experience with it in a very little summer heat, many people never want to be without it again. In fact, it is quite conceivable to me that before very long roles will be reversed, and it will be the automobile air conditioner that will be driving people to equip their homes with climate control!

Beyond that, who knows? Invention is constant. The spirit that people have for doing things better and doing better things, exceeds our ability to keep track.

Progress in the comforts and conveniences we enjoy in modern life come from little things as well as big. The new door handle, as well as the new engine, on today's car is a positive form of progress.

We shall continue to work on door handles as well as engines, and the cumulative effect, over the years, eventually will cause this year's cars to be paraded affectionately as well loved old warriors just as were those Glidden tour entries from all over the country that flooded our downtown sections here in Detroit last week.

All of this work ahead for the automobile industry is part and parcel of our primary job—meeting the wants and needs of the motoring public.

I am sure you want me to comment on the usual question: What are the immediate prospects for the automobile market? The automobile industry was founded by optimistic men and it has grown to its present stature under the leadership of optimists.

I decline to be prophetic. All the media of communication have been loaded for months with forecasts, and weighty conclusions. The prophets of the downturn have been in the majority. They must be very nearly exhausted. It would not be too strange if many of them, in the relatively near future, were to report the coming of an upturn.

In our business we have been busy observing the continued, steady volume of customers wanting new automobiles, who prior to the Fourth of July and after, and prior to Labor Day and after, have been taking delivery of cars at a steady pace. All signs point to there being many more of them with intentions to buy.

We are, as a nation, for the present out of the unending postwar series of shortages. Tremendous expansion of plant, especially for raw materials, has pulled up, generally speaking, with demand. Business after business has gasped with relief at the return of more balanced conditions. We have experienced already far more readjustments than are generally recognized, and the purchasing agent is assuming again his traditional role of discrimination and selection in procurement

If one is willing to look beyond the illusory pleasant symptoms of inflation we have had, can we regard such developments as other than healthy, even bullish factors? Can we fail to take comfort from the decline in those totally nonreproductive expenditures for war and defense?

We have been running indefinitely now at levels of activity which exceeded the marks of our greatest previous periods of prosperity. Can we have any objection if we get to the place where the buyer as well as the seller has something to say?

The automobile industry thinks not. It made its way when selling was a necessity, and it built, or helped build, selling into a great art. It planned its product development, its engineering, under the sharp discipline of consumer whims and enthusiasms. Our company actually made its place in the toughest years of all, and a market in which every sale is not made by the buyer saying "please" has advantages for any business imbued with vitality.

It is an important and exciting thing that nationally plant investment in 1953 is setting new records; that the slight reduction in the fourth quarter now foreseen still will leave the year above the previous all-time record set in 1952.

When you consider the adverse pressures under which this accomplishment has been taking place—the long-dangling Korean truce with its prospective reduction of Federal spending; the progressively visible equalizing of supplies with demands, the relative scarcity of risk capital and the enormous handicaps to its enlistment—it is perfectly obvious that there has been at work a compelling force of modernization, of new product, new process, new efficiency, so great that the most conservative managers could not ignore the inevitable progress.

The new plant investment has to pay off. It is in the hands of managements endowed with the capacity to realize on what they are creating. The prospect ahead is exciting.

I wonder how many of you heard Dr. Clarence Hillberry, the new President of Wayne University, when he spoke at the Economic Club last week. He raised the prospect that in a dozen years or so the number of applicants for a college education in our area, and perhaps generally through the United States, may be fully double the enrollments of today. He and his colleagues have to worry about finding buildings and seats and instructors for them—and money for all these!

We have to worry about providing the vastly enlarged ranks of young adults with transportation! The prospect is not a long-bow drawn at random. Those future students, and drivers, and heads of families, and home owners, are sitting down at their little desks in first grade this month. They are part of the bumper crop of babies that came with World War II's sharp upswing in the national birth rate. Crowding behind them are the children born in the following years, rising from 3½ million each year to nearly four now!

Today's college enrollments represent only the small baby crops of the depression thirties, as do the numbers coming of age today to form families and enter business. They still represent a huge consuming population group.

That is only part of the picture. For all our pride in being a car traveling people, our market in the United States today has not been fully developed. To bring the whole of the United States up to the level of Wayne County in the matter of car ownership, would take the automobile industry something like three years at about double our best output so far!

This is only touching broadly on the possibilities of the automotive market, without even taking into consideration the technological advances that burst upon us from time to time like the harnessing of the atom or creep up on us, piece by piece. Making these possibilities reality is a full order to keep us busy for some time to come.

For all of us in every pursuit and every walk of life the future is spacious. In inventing, producing, selling — in charting true courses for government—in planning, building, and improving the communities in which we live—in all of these fields there are things to be done, vast areas offering limitless opportunity for intelligent action.

The books will not soon close on human progress.

## *Securities Salesman's Corner*

**By JOHN DUTTON**

### Time the Interview

This week's anecdote deals with a phase of salesmanship that sometimes is overlooked even by the most experienced securities men. Occasionally an opportunity arises where a new account can be developed but, unless the contact is made at the proper time and place, unnecessary difficulty is encountered.

In this particular instance, a casual acquaintance was established between a securities man and a middle-aged lady, both of whom had offices in the same building. They would meet in the elevator or in the lobby of the building and pass the time of day to each other —after awhile they became quite friendly. One evening during a rain storm the salesman offered to give the lady a ride in his car to her destination and during the trip they discussed their vocations. When she heard that he was in the investment business she suggested that she had some money that was not bringing her sufficient income and that she would like to talk things over some time. The salesman said that he would like to do this and they parted in a very friendly state of mind.

The next day the salesman mentioned to his sales manager that he thought he had a very good prospective client and he related the conversation that had taken place. The sales manager, meaning well, suggested that the salesman visit the prospect at her office with as little delay as possible. (One of the reasons for the suggestion for action was caused by the fact that far too often this sales manager had seen his own salesmen secure a good lead and then play tag with it for such a long time that the prospect either changed his mind or did business with someone else.)

So the very next day our salesman walked into his prospect's office and asked to see her. As soon as he did so he knew that he was on the wrong track. She acted embarrassed and asked him if he could see her at another time. In fact she even made the remark that she was sorry that he had called to see her at the office because she did not want any one there to know that she might even have been thinking of investments.

People are people — they have their peculiar ways. I have known some wives who did not want their husbands to know that they were investing in securities. I've known husbands who have also not wished their wives to know about their investments. Some women are very secretive about their personal affairs and this lady probably did not want any one to know that she might be a prospect for investments.

The sales manager was right up to this point—follow a good lead and do so as soon as possible. But at the same time this does not mean that you have to hot-foot it into someone's business office the very next day after a casual conversation and then and there try to offer some investment suggestions. This mistake may seem very foolish to anyone who has had experience in sales work that is on such a confidential basis as selling securities. But one cardinal rule that I have found is fundamental if you want to establish clients who believe in you—set your interview up at the proper time and place. Don't rush things. The first interview in particular is important—find out what your client needs and wants. Sit down where you can talk things over without interruption and on a confidential basis. The old adage that haste makes waste was true in this case and there is no need for such a hurried revisit of any prospect under usual circumstances.

When you place a client's business in the position that it is important to you—and you let them know that good planning and advice are something that takes time and study on your part, you then begin to build confidence and you get off to the right start. Otherwise you never establish confidence and you give the impression that all you wish to do is make a sale. That is what happened here.

*Continued from page 3*

# "We Can Maintain Prosperity If We Do Not Lose Our Heads"

preserve it must also, though by far different methods from the slave states, act affirmatively to realize in full our superb potential. If we do this, our superior native endowments, and the superiority of our institutions, can constantly widen the margin of our strength over that of the totalitarians. This alone can decrease the likelihood of total war, and put us in a stronger position if conflict should be forced upon us.

**Our Short-Term Economic Future**

The best way to indicate that our short-run economic future can be bright, if we act wisely, is to analyze the fallacies of those who once again are surrendering to the defeatist psychology that in the short run a substantial business downturn cannot be avoided.

First of all, the constitutional pessimists argue that a serious downturn must be near, just because we have been exceptionally prosperous for a long time. There might be some merit in this argument if we were now in an unhealthy boom characterized by economic excesses, such as soaring prices, rampant speculation, or clear unbalances among different parts of the economy. But quite the reverse is true. We are witnessing full employment of our resources, which is a good thing, with a remarkably stable price level, which is also a good thing. Far from any important speculative orgies, the current high level of activity is being accompanied by a degree of prudence which is in itself a stabilizing factor. We are witnessing a boom and a buyer's market at one and the same time, which is a very healthy mixture if we keep it that way. Under such circumstances, the morbid feeling that while most of the objective evidence which we can see is favorable, there must be something which we cannot see which is dangerous, seems to me an attitude unworthy of thoughtful men. There are, to be sure, real problems to be dealt with, such as the excessive decline in farm income, and how we can better utilize our agricultural productive capacity. But we should define and surmount these problems, not surrender to them without even defining exactly what they are.

Second, the argument is advanced by the pessimists that some important industries are now showing signs of softening. The automobile industry is frequently cited. I have some doubt as to whether this industry, even for a short time, will slow down as much or for as long as some people have thought it would. But more important than this, the very strength of our economy lies in the demonstrated fact since 1946 that we have been able to pass successfully through a series of rolling readjustments in different industries at different times without allowing these specific and necessary readjustments to permeate the whole economy with a depressionary psychosis. A while back, the textile industry was in some difficulties; since then, it has come back strong. A while back, some industrial commodity prices were moving downward in a way that frightened those who did not see the whole picture; since then, some of them have stabilized. Earlier this year, the retail trades were a bit uncertain as to their prospects; now they are surging rapidly forward. It is of the nature of our flexible economy that specific readjustments must occur from time to time, but there is no reason why they need cumulate into a general downward movement if we do not exaggerate their significance and thus multiply their effects.

Third, some of the pessimists rest their fears upon an alleged excess of consumer credit or installment buying, while other pessimists rest their fears upon what they call an excessive tightening of credit. It is interesting that these two schools of pessimists are in conflict with one another, because credit facilities cannot be too generous and too tight at one and the same time. It seems to me that the general growth in credit facilities is by no means alarming, when measured properly against the growing performance and the growing needs of the economy as a whole. And, while I was inclined to disagree with certain measures that were taken to tighten credit and to make money harder to get, I never joined the chorus of those who saw imminent disaster in this step, and I ventured to say many months ago that the monetary and credit authorities would commence to loosen up on the reins as economic trends revealed the need to do so. This seems to me what is now happening.

Fourth, the pessimists have continuously told us that a downturn in Government spending, after the defense program reached its peak, would bring economic calamity. That these people have substituted fear for thought is apparent from the fact that they at the time have been telling us that we would have an economic calamity if Government spending were not drastically reduced. Actually, these pessimists have not analyzed carefully what has been happening to our economy since the Korean outbreak, and particularly during the last couple of years. For example, comparing the first quarter of 1952 with the third quarter of this year, our gross national product at an annual rate has increased about $35 billion, while total public purchases of goods and services—at all levels of Government—have increased less than $10 billion at an annual rate. The main source of demand for our increasing productive power has been the vast increase in consumer outlays, and a growing level of business investment aimed primarily at serving the civilian needs of our domestic economy.

Further, when the pessimists are asked why a reduction in the annual level of public purchases of goods and services of more than $65 billion between 1944 and 1946 did not produce a calamity, they say that there were then backlogs created by World War II which no longer exist, and that consequently we would now be endangered by even a small reduction in defense spending. This idea that our fairly constant expansion has been attributable mainly to war-created shortages has certainly worn thin. For example, the aggressing merchandising policies and fashion leadership of the Lee Company has expanded its business by 20% in each of the past three years. Surely this is not due to a shortage of hats created during World War II. Looking at the economy as a whole, public purchases of goods and services at an annual rate are now about $15 billion lower than in 1944, while the gross national product is about $60 billion higher.

If we in this country can continue to expand the sale of consumer goods commensurately with the market possibilities created by a total personal income after taxes which at an annual rate is now about $40 billion higher than it was in 1950, and which is constantly moving upward at a vigorous rate, we can counterbalance any short-run foreseeable decline in defense spending. If sound pricing policies, the development of new products, and the proper display of products to the consuming public continue to open up the potential markets, the revelation of these bright prospects can in turn sustain a high and ultimately stimulate a growing level of business investment in productive facilities. While there may be some softening in this kind of business investment in the period immediately ahead, it need not be deep and enduring, but instead should in the longer run reflect—as it has over the past few years—the growing wants and capabilities of a growing America.

Of course, we could have a short-run downturn of moderate or even large proportions if we think that it is inevitable, and accordingly reduce our investment outlays and our distributive efforts. But if instead we consciously adjust these to the real needs and possibilities of the country, and embrace the economic philosophy of steady growth instead of the superstition of boom and bust, we can continue our steady long-term growth without large intervening difficulties on a nationwide scale.

In summary of my views regarding the short-range economic outlook—say from now until the middle of 1954—we could have a quite disturbing general downturn, which might snowball to very serious proportions, if we expected it to happen that way or plan it that way. Instead, we should gear our action to the reasonably attainable goal of avoiding any over-all slackening in the economy between now and the middle of next year, by compensating for the temporary softening which must take place in some areas by expansion in other areas. I think that we can be intelligent enough to achieve this moderate objective, but even if we should not achieve it fully, we will be much better off by trying to achieve it than by surrendering to the fears of the pessimists. And by action along these lines, we can much better position ourselves for sustained and stable growth in the years ahead.

**Longer Range Economic Outlook**

Now let us turn to the longer-range economic outlook, which I have always regarded as far more important than the very short-run outlook. In fact, if we think clearly about the longer-range outlook, and appreciate its enormous possibilities, the action which we take in response to this legitimate confidence can carry us through the short-run period without any downturn whatsoever, or a very slight one at worst. I said at the beginning of my remarks that the years ahead during the decade of the '50s can, if we avoid total war, register the finest period of economic stability and growth in our history. I shall now detail the reasons leading me to this conclusion.

**The first factor brightening the long-range economic outlook is America's enormous productive potential.** Our productive capacity sets the upper limits of what we can achieve. Most economists and other observers of business conditions have repeatedly in recent years underestimated our ability to grow, while the actual growth of the economy has exceeded the estimates even of those who like myself were more sanguine. Based upon our technology, our skilled and growing labor force, our business resources and aptitudes, and the march of science and invention, it is my firm conviction that we can lift our annual national product from about $375 billion now to close to $500 billion by 1960—measured in uniform dollars. We can do this under our free and flexible economic system as we have come to value it, without the forced pressures and highly pitched controls of a war economy, and perhaps even with some gradual reductions in hours of work. In fact, if we do not achieve this level of actual production to match our productive power, the only alternative would be large-scale unemployment of manpower, brains, and business resources.

**The second factor brightening the long-range economic outlook is our ever-growing appreciation that consumption — which means the American standard of living— must rise apace with the increase in our productive power.** In the years ahead, we must lift consumption, compared with business investment and Government outlays, to an even higher percentage of our total national output than it now occupies, barring total war. By 1960, personal consumption expenditures in a full economy should rise from the current annual rate of somewhat above 230 billion dollars to an annual rate of more than 310 billion dollars, representing an increase in the neighborhood of 80 billion dollars. The standard of living of the average American family should correspondingly rise by about a third. The actual achievement of this attainable growth will be importantly affected by governmental policies, but it will be even more affected by private economic policies. It is necessary that the trend of business action and of collective bargaining maintain price-income relationships which provide consumers with sufficient incomes to support this growth in the standard of living. Due to the progress already shown in this direction, I do not think that the problem of insufficiency of purchasing power will exist in the future to the extent that it plagued us many years ago. However, a very large problem will be to induce consumers to spend a large enough proportion of their incomes, and not to save a larger proportion than can find its way into active investment. This will present an immense challenge to the marketing talents of every kind of business enterprise dealing intimately with the consumer. Based upon the intensified attention now being devoted to this problem, I feel that it can be successfully met by continuous hard effort.

**The third brightening factor in the long-range economic outlook is the long-range change in the attitude of those who invest in the expansion and improvement of our productive facilities.** A high level of capital formation must accompany a high level of consumption to maintain a stable and growing economy with full employment of our human and other resources. Business should more and more make its investment plans on a long-range basis geared to long-range consumer markets, instead of readjusting downward periodically in response to small or fancied adverse factors in the very short-range economic outlook. If business can solve this problem, and it is marching in that direction, we shall have achieved a vitally important objective making for stability and growth.

**The fourth factor brightening the long-range economic outlook lies in the programs, policies and attitudes of government, primarily the Federal Government.** The Federal Government has two basic responsibilities in promoting a stable and growing economy. First, it needs to maintain and improve the safeguards which protect the economic machine from being overturned by some sudden shock, through such measures among others as farm price supports and social security, and through taxing, spending, monetary and credit policies which adjust sensitively to changing economic conditions. Secondly, realizing that these programs are only safety devices and not dynamic devices, the Government needs to do also those dynamic things which contribute affirmatively to the growth of the economy, including basic resource development and certain types of housing by way of example.

While it is known that I have certain beliefs as to which political party is better suited to these tasks, I have never held the view that our general prosperity could or would be maintained only if a particular party remained in power. The record shows that I never joined in any assertion that the occasional change in responsibility which is essential to the functioning of a free government would bring economic disaster; and years before the election of 1952 I ventured the opinion that no political change in this country would cause any profound or sustained relaxation of the responsibilities of our Government to do its part in helping to keep our economy healthy and progressive. While I have not agreed with all of the things done by the Government in recent months, in a long-time perspective I still adhere to the view that the tools of Government will continue to be used effectively for those salutary purposes which the American people have properly come to expect of their Government. In fact, as our knowledge of how our economy works increases, and as the people become even better educate to their potentials for progress, I believe that any administration will register long-term improvements in doing this job, even though I may believe that one type of administration would register these improvements faster than another. The times in which we live are too serious, and the future of the free world too much in jeopardy, for anybody to try to convince the American people that they cannot hold on to and advance their prosperity despite political change.

In expressing my belief that the Government will in the main enlarge its economic effectiveness in the long run, I do not mean to imply that the Government should assume a growing share of the economic activities of the Nation. On the contrary, I have long felt that, while in absolute terms many of the services of Government must increase as the country grows, in relative terms the growth in private economic activity must be at a much more rapid rate than the expansion of public services if our dynamic possibilities are to be fully developed and if freedom and flexibility are to be fully preserved.

**The fifth factor brightening the long-range economic outlook, and the most important of all, lies in the hearts and minds of the American people.** Sensing their own intrinsic capabilities, the American people have reasonably come to expect that their system of free enterprise and free government will be alertly responsive to their needs. And just because the people have this sentiment, and hold it so strongly, I believe that the response will be forthcoming.

**Unfavorable Factors**

Now, what unfavorable factors are there to be set off against the favorable ones that I have listed? In the long-run perspective, I can find very few of an objective character, except of course the dangers in the current world situation. The main domestic unfavorable factor resides only in the failure of some to appreciate that the favorable factors exist. We have the knowledge, the strength, and the intelligence to move constantly ahead. We will fail to do so only if we substitute ignorance for knowledge, the weakness of indecision for the strength of carefully designed but vigorous action, and irrational fears for sober intelligence. Again I say, we can sell more and more hats—and more and more of almost everything else—if only we do not lose our heads.

But there is one final thought that I would leave with you. We can lose our heads in a literal sense, and not just in a figurative sense, if while we pursue our domestic progress we ignore or under-estimate the size of our world responsibilities. If we forget these world responsibilities, no domestic debt ceiling will be strong enough to prevent the H-Bomb from crashing through it upon our cities. While we must constantly revise our economic and military efforts to strengthen the free world as conditions change, we must never let these efforts fall below the needs that we ourselves recognize on the false ground that we cannot afford to undertake the imperative.

For example, we now hear that the improved civilian defense for which so many scientists and others are now pleading cannot be attained without sacrificing the deterrent value of our striking forces, on the ground that we cannot afford to have both. I do not pretend to be competent to judge how much we should have of either. But I do know that the highest stated estimates of our need for both types of protection made by any responsible persons are well within our economic capabilities, if these persons are right on the score of our national security. The performance of our economy since the Korean outbreak has overwhelmingly refuted those who asserted that we could not maintain our economic strength while building our security strength. It would indeed be a tragic irony for us to doubt our ability to do both in future, at the very time when some thoughtful people are wondering, not whether we have the productive power to fulfill all of our responsibilities, but rather whether we will be able to use fully the enormous productive power that we now have and the vastly greater productive power that we shall generate year by year.

In an economy that can lift its annual production by about $125 billion between now and 1960, and which already despite a heavy defense burden is now enjoying a standard of living luxurious beyond the dreams of the past, it would be ridiculous to question on economic grounds whether we can afford to protect our 160 million people from obliteration, to the extent that such protection is urged by those most competent to pass judgment upon this particular question—whether the cost of that protection be an added $6 billion of $10 billion or $15 billion.

Those of us who are validly interested in lifting our standard of living should press forward. But we should maintain a sense of balance, and not help to drive our country toward a situation where we eat, drink and be merry while the Soviets are building up their stockpiles. This is a transcendent responsiblity resting heavily upon every thoughtful American. And it rests particularly upon business leaders, because their advice will carry much weight in the decisions that are to be made.

We have it within our power, within this decade, vastly to enlarge the prospects for a permanently peaceful world, and at the same time vastly to enlarge our domestic prosperity here in the United States. Unless we accomplish the task of peace, the accomplishment of the task of prosperity may be the source of our undoing. We must proceed on both fronts at the same time, in fearless recognition of what we have the ability to do.

*Continued from page 5*

# The State of Trade and Industry

noting that premium base price reductions, which started before the return to freight absorption, are still going on. They were sufficient last week to lower "Steel's" arithmetical price composite on finished steel from $115.56 a net ton to $115.54.

Other ways to lower cost of steel to consumers are for steel producers to reduce standard base prices and cut or waive extras. However, these means will not be resorted to unless steel producers have to do something besides absorb freight charges to compete for business, it adds.

Steel producers will feel their way along in freight absorption, continues this trade magazine. They'll try to determine where they have to absorb, how much, and on what products. Absorption will be on a selective basis, the degree of selectivity depending on how much the producers desire a piece of business. At any rate, absorption will not be on a blanket basis.

Return of competition to the steel market is prompting some producers to open their order books for the entire first quarter of 1954 instead of a month at a time, declares "Steel." They want to get their share of the business available and think their chances are enhanced by opening their books for the full three-months' period.

The return of competition is not being felt to the same degree in all forms of steel or in all geographical areas, however. For instance, in the Chicago area, where steel consumption exceeds steel producing capacity, one producer of cold-rolled carbon steel sheets thinks it probably will have to continue customer quotas on that product in the first quarter of next year, it notes.

The two-month descent of prices of scrap, a principal raw material for steel-making, halted last week. In fact, a slightly strengthened undertone in the market raised "Steel's" composite price from the preceding week's $31.50 to $31.83.

**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 94.4% of capacity for the week beginning Oct. 12, 1953, equivalent to 2,129,000 tons of ingots and steel for castings as against 95.2% (revised), or 2,146,000 tons a week ago. For the like week a month ago the rate was 91.4% and production 2,060,000 tons. A year ago the weekly production was placed at 2,211,000 tons and the operating rate was 106.5% 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 Continue to Ease in Latest Week

Loadings of revenue freight for the week ended Oct. 3, 1953, decreased 7,155 cars, or 0.9% below the preceding week, according to the Association of American Railroads.

Loadings totaled 812,554 cars, a decrease of 39,366 cars, or 4.6% below the corresponding 1952 week, and a decrease of 46,203 cars, or 5.4% below the corresponding 1951 week.

### Electric Output Declines Slightly in Latest Week

The amount of electric energy distributed by the electric light and power industry for the week ended Saturday, Oct. 10, 1953, was estimated at 8,307,309,000 kwh., according to the Edison Electric Institute.

The current figure represents a decrease of 107,143,000 kwh. below that of the preceding week, but an increase of 609,429,000 kwh., or 7.9%, over the comparable 1952 week and 1,157,851,000 kwh. over the like week in 1951.

### U. S. Auto Output Shows 6% Rise Above Previous Week

Automobile output for the latest week rose about 6% above the preceding week's volume, "Ward's Automotive Reports" stated.

The industry turned out 118,130 cars last week, compared with 111,304 in the previous week. A year ago the weekly production was 99,974.

United States truck production last week totaled 24,066, compared with 22,636 the previous week. A year ago truck output was 29,133 units.

Canadian companies made 7,450 cars last week, compared with 7,130 in the previous week and 6,047 in the like 1952 week. Truck production amounted to 1,978 units last week, against 1,294 the week before and 2,881 in the year earlier period.

### Business Failures Ease in Latest Week

Commercial and industrial failures dipped to 186 in the week ended Oct. 8 from 189 in the preceding week, Dun & Bradstreet, Inc., reports. However, casualties continued well above the 147 and 126 which occurred in the similar weeks of 1952 and 1951. Compared with the prewar level, mortality was down 22% from the 1939 toll of 237.

Failures with liabilities of 5,000 or more rose slightly to 160 from 158 last week and were considerably higher than a year ago when 118 concerns succumbed in this size group. All of the week's decrease occurred among small casualties, those involving liabilities under $5,000, which declined to 26 from 31 in the previous week and 29 in the corresponding week of 1952. Nineteen of the enterprises failing had liabilities in excess of $100,000, one more than a week ago.

### Food Price Index Touches Lowest Point in 14-Week Period

There was a further sharp dip in the Dun & Bradstreet wholesale food price index last week. The Oct. 6 figure at $6.57, reflected a drop of 1.4% from the $6.66 of a week ago. It was the lowest in 14 weeks, or since June 30 when it stood at $6.54, but it was still 2.0% above the $6.44 of a year ago.

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 Moved Sharply Lower in Latest Week

The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., declined sharply last week to reach a new low for the year and the lowest since early July, 1950. The index finished at 270.85 on Oct. 6, as compared with 277.19 a week earlier, and with 290.70 on the like date a year ago.

Grain markets were weak and irregular the past week, particularly corn. Demand for the yellow cereal was listless and prices moved sharply lower.

**The decline was largely influenced by expectations that there will be a large movement to market shortly due to ideal weather conditions which have been favorable for drying out the corn and for the early maturing of the crop.**

The hot and dry weather had a bullish effect on wheat but the market turned weak at the close on reports of rains over the week-end in parts of Oklahoma and Kansas. Although oats and rye followed the trend in corn, the belief that there will be some kind of a curb on imports from Canada had a stabilizing effect on those grains.

Most import commodities appeared to mark time last week pending developments in the dock workers' strike that got under way in the preceding week. Cocoa was easier both here and in the London market. Manufacturers were said to be well supplied for their immediate and nearby requirements and showed little interest in the spot market. Stocks of cocoa declined slightly and totaled 124,970 bags, against 125,996 a week ago. Coffee prices were mostly steady in quiet trading.

**Domestic and world sugar prices displayed a somewhat easier tone as Indonesia for the first time since World War II was reported to be in the market as an exporter of raw sugar.**

Cotton prices trended downward last week with most future deliveries reaching new lows for the season. Heavy and persistent hedging pressure was the chief factor in the decline, while some support was attracted by mill buying on the scale down and by expectations that acreage controls and marketing curbs will be in effect next season.

**Preliminery estimates of this year's cotton yield varied from a slight drop to a moderate increase as compared with the last official forecast of 15,159,000 bales.**

The volume of cotton entering into the government loan continued to increase and totaled 144,700 bales during the week ended Sept. 25, as against 115,900 in the preceding week. Aggregate entries for the season through Sept. 25 totaled 390,700 bales, exceeding the volume of entries for any corresponding period of any previous postwar season. The parity price for cotton in mid-September at 34.35 cents, was unchanged from a month ago, and compared with 34.47 a year ago.

### Trade Volume for Nation as a Whole Higher

Warm weather and interest in the World Series had a marked effect on retail sales in some sections of the country in the period ended on Wednesday of last week. While national sales rose above the preceding week, some areas reported declines as customers stayed home to watch their television sets. Retailers continued to be promotion-conscious.

**The total dollar volume of retail trade in the week was estimated by Dun & Bradstreet, Inc., to be from 2 to 6% higher than a year ago.**

Regional estimates varied from the comparable 1952 levels by the following percentages: New England and Midwest +3 to +7, East 0 to +4, South, Northwest and Pacific Coast +2 to +6 and Southwest +1 to +5.

Apparel sales were somewhat lower than in the preceding week as high temperatures deterred purchases of warmer clothing. In comparison with the previous year, however, ready-to-wear generally reflected greater increases than did other departments. In most frequent demand were coats and suits, sportswear and dresses. Considerable interest was evoked for apparel made of synthetic fibers and blended fabrics. Rainwear sales were somewhat higher.

The special nationwide promotion, Home Fashion Time, was mainly responsible for the increased volume of furniture. Purchases of television sets spurted briefly as consumers sought to bring the telecast of the Series into their homes.

**Among the items moving most quickly in furnishing departments were furniture and bedding and some small ticket items.**

Curtain and drapery volume was above a year ago.

Food volume remained somewhat higher than a year ago and unchanged from the preceding week. Housewives purchased more poultry than at the same time a year ago. Pork volume was somewhat higher than in recent weeks as many food stores featured low-price promotions.

Buyers expressed more interest in the outcome of the World Series than in purchasing, and wholesale volume dipped below the previous week although it remained above a year ago in the period ended on Wednesday of last week. Purchasing appeared to be somewhat less cautious than in recent weeks. Some quarters anticipated a growing slowness in deliveries.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index, for the week ended Oct. 3, 1953, decreased 3% from the level of the preceding week. In the previous week, Sept. 26, 1953, an increase of 2% was reported from that of the similar week of 1952. For the four weeks ended Oct. 3, 1953, a decline of 2% was reported. For the period Jan. 1 to Oct. 3, 1953, department store sales registered an increase of 3% above 1952.

**Retail trade in New York last week failed to show good response to favorable weather and attractive merchandise, and as a result, a sales decline of about 4% below the like period in 1952 is looked for.**

According to the Federal Reserve Board's index department store sales in New York City for the weekly period ended Oct. 3, 1953, declined 5% from the like period of last year. In the preceding week Sept. 26, 1953, an increase of 5% was reported from that of the similar week of 1952, while for the four weeks ended Oct. 3, 1953, no change was reported. For the period Jan. 1 to Oct. 3, 1953, no change was registered from that of the 1952 period.

## E. F. C. Parker Opens

(Special to THE FINANCIAL CHRONICLE)

WHITTIER, Calif. — Edward F. C. Parker is engaging in a securities business from offices at 415 North Friends Avenue.



# Mutual Funds

By ROBERT R. RICH

**SALES OF** the National Securities Series for September were the largest in history and exceeded any other September by about $1 million. For the first nine months, sales totaled $34.1 million, according to figures released by E. Waln Hare, Vice-President. This volume is the largest for any similar period in the company's history and exceeded 1952 by better than $5.9 million.

**TRUSTEES OF** The George Putnam Fund of Boston announce that during the first nine months of 1953 sales of new shares reached a record total of $8,909,000, the highest in the 16-year history of the Fund, and 28% more than the same period last year. The number of shareholders of the Fund increased to a new high of over 24,000, compared with 21,500 at the end of 1952.

In spite of a decline in the stock market, repurchases of shares of the Fund were less in the third quarter than in the second quarter of 1953.

Total net resources of The Putnam Fund amounted to $62,855,000 as of Sept. 30, compared with $57,827,000 a year ago. Approximately 63% of the Fund's resources were invested in common stocks, compared with 64% on June 30.

**"WITH HIGH** taxes and living costs, the investor's money must work harder than ever," is the theme of a new booklet on Diversified Investment Fund called "Money At Work," issued by Hugh W. Long and Company.

Growth is shown by a seven-year comparison, in which period the number of the Fund's shareholders increased from 2,899 in 1945 to 11,925 at the 1952 fiscal yearend. Assets grew from $6.8 million to $32.2 million. The 68 stocks in which the Fund's assets are invested, the text states, earned an average of $1.79 for each dollar paid in dividends.

Through charts and tables, this profusely illustrated booklet tells how an income fund can serve investors. It explains the management's philosophy in selecting the bonds, preferred stocks and common stocks in which the Fund's assets are invested, gives details of earnings on these investments and shows income and capital results of the Fund in the past five years.

### *Dealer Service Reports Over 550 Subscribers*

The recent publication of "A Guide to Local Sources of Information on Mutual Investment Companies," a roster of securities dealers subscribing to the Wiesenberger Dealer Service, shows that 550 firms in 220 cities now are members of what Arthur Wiesenberger, senior partner of Arthur Wiesenberger & Company, terms Wall Street's biggest "syndicate." "This 'syndicate'," he said, "is not an underwriting combine—but a merchandising and promotion service which provides investment firms with ideas and tools to sell securities, rather than the securities themselves."

Latest feature of the dealer service is a personalized investment planning program to provide dealers with a complete "custom-tailored" presentation for important clients.

### *New Salesmen's Compensation Plan Announced by I. P. C.*

John Kalb, President of Investors Planning Corporation, announced that his mutual fund retailing firm, which will sell Axe-Houghton Fund B shares under a contractual or penalty plan, with optional declining term insurance, as well as the shares of other mutual funds, will offer salesmen a vested interest in the contractual plans they sell. Mutual funds salesmen who have been with IPC for at least one year or sold a minimum stated volume will, upon disability, receive 75% of the continuing commissions from future business on their investment plan accounts. Upon death, the continuing commissions will be paid to the salesman's estate.

The retirement feature of the salesman's vested interest account provides for 25% of continuing commissions after one year, with a graduated scale to 75% after 10 years. A salesman may, at his option, choose either volume requirements or length of tenure for the receipt of his benefits under the vested interest plan.

A somewhat similar plan for salesmen has been in operation since 1935 at Financial Industrial Fund, with disability and retirement provisions reaching a maximum of 100% of the continuing commissions on the future business of the salesman's accounts.

### PERSONAL PROGRESS

The appointment of **Thomas F. Glancey** as Treasurer of Wellington Fund was announced by Walter L. Morgan, President.


Thomas F. Glancey

Mr. Glancey joined the Wellington organization in 1948 and in the following year was named Comptroller of the Fund. He is a certified public accountant and a graduate of the University of Pennsylvania. In his new post, Mr. Glancey will direct the financial and administrative divisions of Wellington Fund at its offices in Claymont, Del.

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# The Job We Are Doing

the policy expressed by the Commission, the NASD committee sees to it that the necessary corrections are made. Thus, the public is better protected, the Commission achieves better enforcement of the law and the industry benefits from reasonable assurance that changes will not have to be made in the literature after the expense of printing a substantial quantity has been incurred.

With a view to providing a better understanding of the Statement of Policy, NASD has prepared a guidebook to the Statement. This, the authors declare, should encourage the sale of investment company shares by objective explanations of their advantages and limitations under a standard of equal treatment to everyone.

The most obvious defect in the Statement of Policy—indeed, in the statute itself—is the lack of a precise definition of what constitutes "sales literature." The Statement of Policy defines sales literature as including "any communication (whether in writing, by radio or by television) used by an issuer, underwriter or dealer to induce the purchase of shares of an investment company." Almost any article or advertisement can be sales literature, depending on how it is used. Neither the statute nor the Statement of Policy makes an exception of institutional advertising. I humbly and respectfully submit that there are practical limitations to a definition in words of "sales literature." Consequently, I would like to submit for your serious and reflective consideration a different approach to that particular problem than is currently in effect.

### Penal Section of Act

Section 24 (a) of the Investment Company Act makes it unlawful "to make use of the mails or any means or instrumentalities of interstate commerce to transmit any advertisement, pamphlet, circular, form of letter or other sales literature addressed to or intended for distribution to prospective investors unless three copies of the full text thereof have been filed . . ." within ten days after its use. In other words, the statute is penal. If a citizen violates it, he lays himself open to a penalty. In the case of penal statutes, generally, no interpretative service is provided in advance of the doing of an act which may or many not be construed as a violation. Generally speaking, the Federal Trade Commission does not clear advertising in advance. The citizen (sometimes with his lawyer's advice) makes his own interpretation and the courts punish him if he turns out to have been wrong.

Your industry-established procedure for examination of sales literature is adaptable as a means of reaching some conclusion as to whether particular documents constitute sales literature. What I am suggesting frankly is that the industry and the individual members thereof act at their own peril in deciding what is sales literature. Then the Commission will be free to prosecute on the basis of the particular facts of each case a misuse of non-filing of any material which is in fact used in selling investment company securities. As I pointed out, this is not a revolutionary concept; it is simply laying upon the members of your industry the same obligation that citizens generally have—to read and at their peril interpret the words of a statute which makes a particular act unlawful. The statute has no provision for pre-use determinations of what is or what is not sales literature. Please understand that the foregoing is merely an informal tentative suggestion of one Commissioner for consideration as a approach to the problem.

That is only one of the many problems which the Commission has, all crying for solution. As in the case of our other problems, we shall welcome constructive suggestions from regulated groups.

But, however much self-regulation is effectively imposed by the industry, you and the Commission have a lot of work to do together.

### SEC Rule Making Powers

I say that because the Commission in the Acts administered by it is given unusually broad powers to make rules and regulations which have the force of law and naturally in the rule-making process there is great opportunity for cooperation between the regulator and the regulated. This rule-making power is characteristic of administrative agencies, which are executive in their enforcement functions, judicial in their decisional functions and legislative in their rule-making functions. The ingenuity of the American business community constantly creates 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 50 instances in which the Commission is expressly granted rule-making power in the Investment Company Act and almost 50 cases in which the Commission may by order relieve against any hardship caused by the Act.

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.

An alert intelligent community of investment companies and dealers and an alert and intelligent Commission each can make a contribution to the formulation of rules and regulations which are adequate to protect the public interest and the interest of investors but at the same time are practical.

In the last analysis, however, investors are going to get the protection they need from the sound judgement, common honesty, and self-control of the investment companies and the dealers in their securities. The inherent limitations on the ability of government to create either brains or morals makes this a truism.

Now, may I be specific as to a few areas in which the imposition of self-discipline might be considered.

**The SEC and Pricing Practices**

The Commission occasionally receives complaints about the pricing practices of the industry. Quantity discounts, particularly, are the subject of irritation. So long as the sales load is not "grossly excessive" or so long as there is none of the discrimination prohibited by Section 22, this is a concern of management. If such discounts are granted, however, I commend to you the practice of many companies which question all sales just below the breakpoint. They make sure that each customer who makes such a purchase understands fully the commission system and knows that for a few more dollars he could receive substantially more stock. In that way, recriminations are avoided.

Those who operate investment companies and make arrangements with the dealers who sell their securities should possess the knowledge to suggest additional techniques to eliminate unfair or unwise pricing practices. The Commission stands ready to lend its aid to that end in its administration under Section 22.

Today, when the competition for the investor's dollar is increasing, it is particularly important that you hold the confidence of investors. This fall will see one of the largest amounts of private financing in our history. Inevitably, that means more selling pressure by brokers and dealers to persuade investors of the merits of particular securities. Only self restraint of the seller can protect the interest of the buyer under those circumstances.

In no area is this more important than in the sale of securities of one investment company after a redemption of the securities of another. Information in the Commission's file indicated that sales of their own securities by open-end investment companies amounted to $167,000,000 in the second quarter of 1953. Repurchases amounted to $69,000,000 in the same period, or 41.2% of sales compared with 33.6% repurchased in the previous quarter. During 1952 repurchases ranged from a high of 28.8% in the second quarter to a low of 21.9% in the fourth quarter. Redemptions may reflect the normal desire of people to shift the character of their investments. Changing markets and interest rates and a change in personal circumstances may each dictate a shift in an investment portfolio. But it must be a cause of concern to any business if there are excessive returns of its merchandise.

Redemptions bear watching. Loss of confidence or even disappointments can do more damage to your business than all the penalties in the Commission's book.

The maintenance of investors' confidence is a fundamental concern of the national economy. Broadly speaking, it is the justification for all the acts administered by the Commission. But the government's part in the creation of that confidence is negative. Basically its job is to prevent and strike down abuses and to punish rascals. The role of private enterprise in positive. It must create soundly and honestly.

**SEC Future Plans**

Now may I speak briefly—and unfortunately in all too general terms—of our plans for the future.

The Commission has an enormously complicated, never ending task. The statutes which we administer are all complex, and we deal with a pretty delicate mechanism—the process of capital formation. Impulsive action, experimental application of bright ideas can have disastrous consequences. It's easy to agree on catch words like "simplification," "less paper work," "self-regulation," etc., etc. But when we begin to apply these concepts to specific situations, we must move carefully and precisely and with a cautious consideration of consequences.

True, the Commission is an executive agency of an Administration dedicated to less government, not more. But in the case of investment companies, I remind you again that it administers an act which the regulated group itself helped to draft—a piece of legislation which was designed to correct admitted abuses. We have no intention of scuttling the ship that we're hired to steer.

From that precautionary observation let me go on to say that we do want to do our job in a workmanlike manner, without any unnecessary red tape, and free of what might be unkindly termed "harassment." We propose to reexamine rules and forms. We are about to adopt a new form of registration statement and prospectus for investment company securities. We have under active consideration rules for registration of Canadian investment companies. As a long term project we hope to create a greater degree of uniformity in rules and forms under the several acts which we administer.

We present a receptive mind to proposals for improvement, clarification and simplification. We recognize, for example, the problem of repetitive registration of investment company securities. We welcome the help of the industry in solving it—or any other problem. We shall be happy to receive and discuss recommendations for rule or form changes. We hold ourselves in readiness to discuss proposals for legislation. In the legislative sphere, of course, we can do no more than act as a catalyst. We can present our recommendations to the Executive Office of the President for inclusion in the Administration's program and we can lend such assistance and counsel as the appropriate committees of the Congress may ask of us.

In view of the comprehensive nature of our statutory responsibilities under the Investment Company Act, we have an obligation to keep advised of the problems which arise in your industry. I'm an inland man myself, but I understand that the Coast Guard has a system of warnings—flag signals for storms, threatened hurricanes and hurricanes. Continuing the figure, the Commission has an obligation to watch the cloud formations and to keep advised of how the wind is blowing. Changing the figure, it should know what the score is. I don't mean by that that the Commission should be a busybody telling you how to run your business. The Commission can, however, perform a service to the industry and for the public interest if it uses its statutory power wisely to warn of practices which could become abuses.

For example, the Commission is interested in the practice of the giving by investment companies of brokerage business to dealers who have been most effective in the sale of investment company securities. My mention of this subject is not intended as finger-pointing—yet. It is merely illustrative of the Commission's realization that it has a responsibility to know what is going on and to give consideration to the possible consequences of particular practics.

Our job and your job and the job of a lot of other people is to make the American system of free enterprise work. We each have our separate jobs. but neither of us can claim success unless we both act in the public interest and for the protection of investors.

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# Investment Officer's Role In Promoting Fiscal Sanity

be invested in government securities.

**The Treasury 3¼%**

I'm not in the government bond business and I'm not a bond salesman, but as an insurance man, I know the Treasury 3¼% bonds offered this spring give a rate of return that covers the average earnings required on policy reserves. One other feature not to be ignored is that these bonds are non-callabe for 25 years. Which means, of course, that they offer protection of assured income even if there should be a return to a period of extremely low interest rates. I maintain, therefore, that these bonds were consistent with our investment requirements.

You may recall that before these new bonds were issued, the Treasury asked the Joint Committee on Economic Policy of this Convention and the Life Insurance Association of America to give its informal views and to indicate what the life insurance companies might be able and willing to buy. Our Joint Committee, as I believe most of you know, pointed out: first, that the appetite of the life companies was limited at that time; second, that many companies had very large forward commitments, and therefore did not have excess cash; and third, that U. S. Government bonds already constituted a substantial percentage of total assets. It was the consensus of opinion — and opinion only — however, that probably the life insurance companies could be counted upon to subscribe about 10% of their expected incoming funds for the balance of 1953. This amounted to somewhere between four and five hundred millions of dollars. This is exactly what the life companies did subscribe to when the issue was offered.

You will remember that when these new 3¼s were offered, the market was crowded by an unusually large amount of new corporate and municipal financing. Shortly after issuance, the new government issue dropped below par. This was the prelude to a rapid deterioration of the whole bond market which, by June 1, had approached a state of disorganization. Potential buyers went into hiding, waiting for still more favorable buying opportunities. Security underwriters, caught with large inventories, were tossing bonds overboard to avoid further losses. Government bond dealers, by and large, did not dare to take even normal positions in the government bond market because of the unusual risks involved. Under such conditions, it was very easy for even the friends of the Treasury to say, "Look how wrong you were."

It may well be that the Treasury did not time this issue wisely; that it took the market by surprise in announcing its plans so early. It may well be that the Treasury made a technical error in not making clear whether the life insurance companies and other institutional investors would be allotted all the bonds which they had subscribed for. And it probaly can be demonstrated that it made an error by calling upon these institutions for only 20% of their subscriptions. Similarly, it may well be that the Federal Reserve, during the early part of the year, pursued a restrictive credit policy too severely and too long, not fully realizing how delicate an instrument open market policy can be.

If these were errors, however, they were errors of procedure—not errors of principle.

One of the principles involved was the advisability and necessity of starting a sound refunding program even though in a modest way. It was a principle that should, and did, have the approval of those who believed in a stable, honest and sound dollar. Whether this start of the Treasury's refunding program could have been handled better technically is beside the point. The fact remains that this first attempt received a black eye in the market place. Many considered it a fiasco. Almost immediately those who favor a soft dollar and those who believe expediency to be the first law of politics started bellyaching.

A reception such as that given to the new government bonds issue in May is not to be regarded lightly. It makes just that much more difficult all future refinancing operations.

In the long run, a disorganized bond market, particularly when it extends to government bonds, is good for no one. It may present an opportunity temporarily for a few lucky purchases at bargain prices, but that should cause satisfaction only to those who are unable to look beyond their noses. We who believe in a sound dollar, and we who are trying to serve our policyholders' best interests, must assist in seeing to it that there is no repetition of such a situation.

**How Life Companies Can Help**

Life insurance companies in the aggregate represent the largest pool of new long-term savings in the country, the net savings flowing in to us averaging nearly half a billion dollars monthly. I am certain it would have taken only a modest amount of courageous buying to have halted last May's disorderly retreat of the government bond market. Courageous buying could have accomplished this long before the rout became so pronounced that the whole monetary policy of the new Administration came under heavy political and business fire. I wonder if we fully recognized the challenge of that situation to our business statesmanship and if we realized how our dollars could have helped in the preservation of an orderly market and the Treasury's new debt policy.

We in the life insurance business believe in private enterprise. We believe in a minimum of government interference. Unless these beliefs are hollow, we must be willing to back our beliefs aggressively by positive action. We must be ready to take the lead rather than to wait for the leadership of others, much less the lead of a government agency. We have vital interests in an orderly government bond market. We have vital interest in the successful refinancing of the national debt. And so we must be ready to protect that interest and not wait, as so many with little courage did last spring, for the Federal Reserve or someone else to come to the rescue.

I want to make it absolutely clear that I am not suggesting that life insurance companies purchase nothing but government bonds. Nor need they make any great departure from their broad policy regarding diversification of investments. Neither am I suggesting that they should purchase any government bonds that fail to meet their investment requirements. Nor am I suggesting that they underwrite the price of government bonds, including the new 3¼s, at a perpetual price of par or better.

What I am suggesting is that we should do our share, perhaps more than our share, in supporting the Treasury's program of obtaining an honest dollar by recovering from past inflationary practices. I am suggesting that we participate liberally in the purchase of new Treasury offerings that meet our requirements, even though such participation may reduce our overall rate of earnings by a very slight fraction. And I am suggesting that we should not be hesitant in utilizing some of our resources courageously, to minimize temporary conditions of disorganization that may occur from time to time in the government bond market.

**Sound Money Policy Will Not Bring a Recession**

I mentioned earlier that, in a democracy, monetary management tends to be a one-way affair, because it never can be completely removed from the influence of politics. It is all the more important, therefore, that responsibility for executing a sound monetary policy should not rest entirely with the Treasury or the Federal Reserve. This responsibility should be shared by private enterprise dedicated to the public welfare. We should not fear giving full and enthusiastic support to the Treasury's policy, merely because some prophets of doom tell us that moderate credit restriction and higher interest rates will bring on a business depression. We should point out that the pursuit of sound monetary policies elsewhere in the world has not brought on depression, but has fostered business improvement. This is notably true in Canada, England, the Low Countries, and West Germany. We should point out that interest rates in this country today are still extremely low historically—in fact, lower than in any other major nation in the world except Switzerland.

I feel that perhaps I may be accused of preaching a sermon, which is obviously something no one in any business can do. That certainly has not been my intention. I do, however, feel very strongly that we in the insurance business, with our great public trust, must think in terms of statesmanship rather than expediency. Our directors, our finance committees, and our senior officers must not think in terms of day-to-day decisions that may be good for this year's earnings and this year's dividends, but rather in long-range terms of what is going to be good for our policyholders, our business, and our country five, ten, and even more years away. We must lose no opportunity to prove by our actions that we are worthy of the trust the American people have shown in us. We must lose no opportunity to impress upon the American public the constructive role which we are playing in our country through the investment of their savings.

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# As We See It

worth while to point out very simply and very briefly some of the major differences between our position today and our mode of procedure and those of the British in the nineteenth and early twentieth century.

### British Rationalization

First of all, let it be observed that if the British ever very seriously regarded themselves as world peacemakers the notion was a sort of rationalization justifying in their own minds their real purposes, objectives and procedures. The sun never set on the Empire in those days. The rulers —and they were much more nearly rulers in that period than they are today—had important, often vital interests in every quarter of the globe. Their primary purpose in life was to safeguard those interests. Compared with other imperialistic rulers their self-interest was for the most part enlightened. They were "good," moderate, flexible and shrewd rulers, but in all that they did, whether humanitarian or otherwise, their abiding interest was always the good of the Empire. Generally speaking they remained aloof unless the interests of the Empire were rather directly involved.

We have no empire in the British sense, and loudly and sincerely proclaim that we want none. In the older sense, we have little or no interests in the Far East, in India, in the Middle East, and certainly none in Europe. When we inject ourselves into the affairs of these regions, our presence is often resented since in the older sense to which all have been accustomed for decades these things are strictly none of our business. As a matter of fact, the result is more often than not even worse than is so indicated, since our activity is often regarded as an indication of imperialist design—and even when it is really not so regarded the propagandist finds our activity excellent grist for his mill.

Again the foreign observer trained in the older notions of world politics finds it difficult to reconcile our disclaimer of interest in empire with the geographically far-flung defense system we insist upon maintaining. Bases hugging the Asian coast, others resting on the African mainland, and still others in practically every other strategic spot on the globe could hardly fail to be reminiscent to the older generation of the practices of the imperialists of another day. We suspect they would be regarded in about the same way by us if they belonged to Russia and were located so extensively throughout the world and, in particular, in our immediate section of the world. And, of course, a large and important part of our defense preparations is of the sort which would be equally valuable in the event we undertook aggressive operations against other peoples.

### As Others See Us

Let us not be misunderstood. We are not here arguing the merits or the demerits of what we are doing. We are merely making note of how our actions must appear to other countries, some of them long victims of imperialism of other decades, and some of them rightly or wrongly uneasy about their own future and their own safety—and some of them, doubtless, so saturated with their own imperialistic designs that they can scarcely be expected to doubt that others are equally ambitious. Defenses we should be foolish to neglect in such an era; and in this day and time defense must be world-wide to be really effective —but, of course, such an argument in the mouths of our rivals could plead for much that we should not be willing to grant.

Of course, we are well aware that argument in support of our general foreign policy can be, and often is, placed on a broader and on the whole sounder footing than the vague idea of world "responsibility" and the general good of mankind. It is often said, and with truth, that avoidance of armed conflict, possibly escape from conquest, in this day and time is no purely local affair. The oceans are not quite the barrier they used to be—although they still exist despite much that is said that would sometimes almost suggest that they had been drained off somewhere. The development of atomic fission and fusion has further complicated the situation.

Of course, too, it can be said and is often said that twice during the past half century we have found ourselves drawn into devastating conflict which started far from our shores and in a sense far from our immediate or direct interests. Whether or not farseeing statesmanship could have kept us out of them and whether we should be much safer if we had kept out of them are other questions about which it is futile to argue now. The point is that we were drawn in, and today must consider what our fate would be should another such outbreak occur—especially now that we have made powerful enemies.

We are obviously in a tough spot, and must make the best of it, but we shall do just as well if we keep our feet on the ground and never forget how we must appear to the other fellow.

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# Ameiican Prejudices And the Price of Gold

That might be so, but they want the adjustment to take care of the effect of past inflation, and not to induce a new shower of paper money. Certainly in the sterling area gold producers have found how easily the benefits of a higher price can be removed by renewed inflation. Such further inflation is certainly not inevitable. Indeed, as regards supporters of the international liquidity argument, no one of them has ever desired further inflation, but the "boo-word" has been continually used against them by persons in America who have regarded the inflationary trend with equanimity.

### Inflation Not Necessary

Elsewhere I have explained that there need be no inflation if the premiums represented by the revaluation of the asset, gold, were placed to capital reserves. While this answer has not been challenged, some critics now shift their ground and argue that if the premium were placed to capital reserves then there would be no point in raising the price of gold. This to me is a staggering admission. Are these critics unaware of the desirability (now accepted almost everywhere) of increasing the liquidity of central banks? Are they further unaware of the fact that in the interval between the two World Wars there was a process of currency devaluation, representing an all-round increase in the measure of gold and this process represented a great improvement in the liquidity of the international banking system, or, put conversely, there was an all-round reduction in the relation between the credit now called "money supply" expressed in terms of gold? What our school proposes is that this reduction of credit, expressed in terms of gold, should be made now in an orderly fashion and not through a drawn-out process of international competition leading to a large-scale destruction of credit through default, with the accompanying results of unemployment and economic distress.

### Prerequisite to Convertibility

As I have explained, the requirement of convertibility of credit into money requires the revaluation of credit, and yet the cry of inflation is raised by other critics who do not wish to see convertibility because it implies restraint on the extension of credit. Take, for example, one who has clearly said: "Restraint on public spending depends on determination by Congress to practice such restraint." You will, I am sure, agree that so far such restraint by legislative bodies has been conspicuous by its absence and I believe you will also reiect on historical grounds the further remark that "no other means will serve this purpose."

It appears that the boo-word of inflation in our context comes either from those who in fact dislike the restraint on credit represented by the requirement of convertibility or from persons who make queer deductions from arithmetical exercises.

This brings me to another school of pseudo-critics who are also in some ways, perhaps, pseudo-allies. This school, while clear as to the discipline which could be afforded by a return to a system of international gold payments, insists that there is enough gold for America to return at once to a full gold standard. Presumably other countries, once they had clamped down on credit, would also introduce gold payments and join what would become an international gold standard. This prejudice may briefly be called "the prejudice of enough gold."

Before I deal with their arithmetic, may I again explain that our view of liquidity is based on what I have called the net reserve position, i.e., on what gold reserves a country possesses and what its debts receivable and debts payable are in relation to that gold stock. It follows that the time structure of these items must also be taken into account.

### The "Enough Gold" Argument

The "enough gold" school takes a short cut and simply looks at the ratio of gold stock to money supply. The argument goes like this:

"Today the ratio of our gold stock to non-gold money and deposits is approximately 10.37%. This compares with an average of 8.6% for the years 1915 to 1932, when the range of yearly averages was from 6.7% to 10.9%. When the ratio was at the highest level on record—21.7% to 24.6% in 1939 to 1942—Congress failed to take advantage of the unusually favorable situation."

From these average ratios it is argued that there is now enough gold in the United States *at its current price* and there is the hidden allegation that the dollar was over-devalued last time.

This, I would submit, is an untenable argument. An average, as my old friend, Professor Cannan, used to say, merely means that there are things above it and things below it and the range of ratios between 8.6% and 24.6% includes, from known experience, ratios which in most of the years were too low. The later monetary experience proved, through the general revaluation of gold, that the 1915 to 1932 figures undervalued gold in relation to credit. In 1933, when the President and Secretary of the Treasury placed an embargo on gold exports, the Head of the House of Morgan welcomed the action and stated:

"It has become evident that the effort to maintain the exchange value of the dollar at a premium as against depreciated foreign currencies was having a deflationary effect upon already severely deflated American prices and wages and employment. It seems to me clear that the way out of the depression is to combat and overcome the deflationary forces. Therefore I regard the action now taken as being the best possible course under existing circumstances."

During the 1915 to 1932 period the highest figure is given as 10.9% but even this was low in terms of earlier experience. In 1860, for example, the ratio was 29% and while from 1870 to 1900 it was at the end of each decade above 10%, there were yet severe liquidity crises on which the records of the House of Morgan can again bear witness.

There is, however, not much point in my inducing tedium through over-quotation of statistics because these statistics all leave out the vital element of the debts receivable and the debts payable. The 1938 figure was not, however, much in excess of the 1914 figure and the authorities would not in 1938 have regarded the ratio as high enough to re-establish internal convertibility of gold in the United States, especially if account is taken of the much greater external debt in 1938 as compared with that in 1914.

### Low Liquidity

From the practical evidence the conclusion seems to be inescapable that in all the years from 1919 to 1938 international liquidity was too low in the world as a whole and the average argument is unconvincing because it amounts to assessing the liquidity position of a business or a country without taking into account what Accountants term Debtors and Creditors. In the inter-war period if one country acquired too much gold it inevitably became the object of attack by gold-hungry countries who, by methods like unilateral devaluation and exchange control, attempted to replenish their tills with gold. In the '30s such policies were labeled "beggar-my-neighbor" policies, and there are now signs that these old characters may in new clothes and with new names come on the stage again. (If they do, watch for the old corny plot.)

As regards the United States, if we now take the ratio after allowing for debts receivable and debts payable, then it is now only about ⅕ of the figure it stood at before World War II and the deterioration of its liquidity, while smaller in degree, is as free from doubt as that of the world as a whole.

### Dollar Over-Devaluation

I have not, of course, dealt with those who allege that the dollar was overdevalued last time. This I believe is another example of poor interpretation of arithmetic because those who make this statement will not, I believe, have liked the inevitable consequence that if the par value of the dollar had been higher this would have meant an exchange rate giving more pounds in relation to dollars. For example, the exchange rate between dollars and pounds would then have been, say, four dollars or less. I also do not believe that American exporters who remember the experiences of the early '30s would have preferred such a rate. But even supposing that the present United States ratio met the requirements of all schools, this would not yet justify the re-establishment of an international gold standard if all the countries outside the United States were still woefully illiquid. I submit, therefore, that all these arithmetical exercises simply lead one back again to the conclusion that the credit, now called money supply, is rated too high in terms of gold at present—as it was also after World War I.

A variation of this prejudice takes the form of comparing a graph of world gold reserves in dollar values with the value and volume of world trade. Taking 1926 as a base, the gold reserves graph shows the effect of the change in the dollar price of gold after 1933 and the gold reserves curve remains from then onwards at a proportionately higher level tnan the value and volume of world trade. My first comment relates to the arbitrary choice of the base year. The year 1926 was a year of low international banking liquidity and it was marked by other undesirable economic features—to mention only one, there was a small matter of a general strike in Britain—but apart from this arbitrary choice of a base, the relation between these curves is not impressive since in all the years from 1924 to 1953 the physical volume of world trade (national plus international) has been below what is desirable. If gold reserves had been adequate, international trade and world trade would have been and now should be at much higher levels. There is abundant evidence that in all these years illiquidity in the international monetary system hampered the financing of international trade.

**Cassel on Gold Reserves**

As long ago as 1935 Cassel pointed out that "the world actually holds gold reserves to an amount more than sufficient to pay a whole year's imports without any use of the corresponding exports" but despite this, no sensible person would maintain that there was then enough gold to allow the return of the international gold standard or to maintain international trade at a high level. The significant ratio in all those years was and still remains that between the amount of credit, i.e. money supply, and the object of conversion, namely, the gold.

In their search to find extraneous matters and to deny past experience, some critics have recently quoted from the Gold Delegation's Report of 1932 in order to prove that "the trouble then (as now) lay not in any overall lack of monetary reserves but in their maldistribution." They quote a passage from the Gold Delegation's Report of 1932. This passage contains the sentence "there seems to be little ground for believing that the total supplies of gold available for monetary use have not been sufficient to meet all reasonable demands." This latter statement certainly was not shared by the harassed central bankers of the time, and the events constituted a procession of individual devaluations towards a general devaluation. Indeed, Cassel, who was then regarded as one of the "giants," and who was one of the Gold Delegation, has commented on the period between the Delegation's first meeting in August, 1929, and its final report in June, 1932, as follows: (I quote):

"In the meantime the very catastrophe which its work should have contributed to avert had come upon the world."

What the critic who now denies the experience of "last time" hopes to prove by quoting the mistaken judgments of those who were wrong "last time," I simply fail to comprehend.

**Sacrosanctity**

I realise that some of the arithmeticians regard the measure of gold of 35 dollars as almost sacrosanct. They have been criticised for being "inconsistent reformers" in that on their arguments they should go back to the pre-Roosevelt figure of 20.67 dollars. A light-hearted Englishman once advised me that we should explain to Americans that there is nothing sacred about "35" as a number as it is "not one of the cosmic constants"—whatever that may mean. I do not believe that the problem can or could be settled by the mystic "science" of numerology. What is important is that if the world is to return to an orderly system of international monetary payments then the measure of gold must be increased considerably or, expressed in reverse, that the so-called money supply must be convertible into a much smaller amount of gold. In the absence of such an adjustment, the suggestion that an international gold standard can be re-established without a large measure of deflation is a view based on poor interpretation and poor judgment.

**Not Claimed as Cure-All**

But before I forget, I must mention a view which does not deserve a label as respectable as the word "prejudice." I refer to a trick some of the pseudo-critics have of saying that an all-round increase in the price of gold is not desirable because it will not cure all economic ills. None of my school has ever claimed that it is a "cure-all" in the sense of the wares of traveling medicine-men. Let me again say quite clearly that a rise in the price of gold will not cure all economic ills, nor will it remove toothache, or intemperance of the body or the mind; it will also not grow hair, provide knowledge of the past or endow one with perfect foresight or judgment in the future.

On reflection I find that I have not dealt with another irrational prejudice, namely, that to change the figure of 35 dollars is to upset "the stability of the dollar." Gold is always gold and, therefore, whether the measure the dollar equivalent of an ounce is 35 or 20.67, or 70 or 140, matters only in relation to the amount of credit. The amount of credit affects prices, and the dollar certainly has not been stable (as the late President Roosevelt promised many moons ago) "in terms of what it will buy. A change in the dollar measure of gold by itself is, therefore, quite neutral in relation to stability of the currency unit in terms of purchasing power and this so-called desire for stability is a mere fetish—indeed, the desire for such stability contains seeds of instability sown over the whole field of international monetary arrangements.

Returning now to a more serious tone, I must not neglect another prejudice—what I might call the "Red prejudice." This goes on the lines that a rise in the price of gold would benefit the Soviet Union. As we have pointed out more than once, the suggestions that the Soviet Union has a large production of gold and/or large reserves are largely unsupported. Even if they were true, however, the amount of benefit from a revaluation of gold would be insignificant as compared with similar changes in the price of other commodities such as wheat. This particular prejudice seems lately to have been dropped out of the list of extraneous objections, but perhaps Senator McCarthy or someone else in the United States might find it entertaining to discover who first started this Red hare. Recently I have argued that in the economies of the so-called "free world" we have been leaning over to the Left and it is indeed high time that we recovered our balance. A rise in the price of gold would be a measure restoring order into the international monetary arrangements of the free world and, as such, it must be regarded as something that would strengthen, not weaken, the free world in making effective preparations for its defense.

**Proposals for "Selective Foreign Aid"**

The critics sometimes produce a prejudice that is political rather than economic. The main advocates for a higher price for gold have always argued that the desirable adjustment is large but the critics assume that the adjustment will be small and that, therefore, the effect will be small. They then go on and say that these small effects can be achieved by continuing the process of giving what they call "selective foreign aid" rather than by taking any more gold at a higher price. This argument obviously constitutes an implicit admission that the process of aid is equivalent to a de facto devaluation of the dollar — and perhaps implies also that a permanent devaluation is inevitable — but America should surely realize now that "giving aid" easily means "buying hate." On some ways of looking at it, the increased liquidity available from a higher price of gold may be regarded as not rational, but it is clear that a higher price for gold would give a reward for monetary virtue, while the aid policy encourages the unthrifty to remain so. If I may add a political remark, the giving of aid in proportion to the "reddish" and "pinkish" element of the recipients might in fact also encourage such countries to travel farther along the Communist road. In other words, the effect might be exactly the opposite of what is intended.

In any argument on the price of gold I find that before long one is told that the majority of economists in the United States are against it and that, therefore, it cannot happen. Perhaps I may call this the "prejudice of numbers," remembering that many, like one, can sometimes be wrong — "for some of the time." Indeed, this artful line is not a logical one because an unkind observer might say that it amounts to a jury pronouncing sentence without having examined the evidence. One is reminded also of the familiar feminine reasoning: "Of course it is so—*everybody* thinks so."

There is, however, a serious reason for the disinclination of American officials to have the subject fully discussed. Some friends of mine in the United States are puzzled by what might be called the "conspiracy of silence." The phenomenon is not unfamiliar because we have seen it in many countries which have since revised their views and now support the case for a revaluation of gold. In the United States, however, there is a special reason arising out of the legal position that only an Act of Congress can change the gold parity of the dollar. I understand also that exchange control and other measures designed to protect the country's till against loss of gold similarly cannot be introduced without an Act of Congress. The introduction of legislation restoring power to vary the gold content of the dollar is also likely to be frowned upon because this might be regarded as providing a tip to speculators regarding the intentions of the administration. In all these circumstances it is but natural that officialdom will not exactly encourage discussion.

Cynical observers outside your country are now beginning to say that no matter what arguments are used, they will fall on deaf ears and no action by your Administration can be expected until it has lost a considerable portion of its gold reserves in a world scramble for the yellow metal. Other foreigners will say that, while they appreciate the legislative difficulties, they cannot at the same time believe that the United States, as a world leader, will not face up to the problem since it is becoming more and more urgent to obtain in the free world effective control of credit. Perhaps some shrewd operators in your country will also say that the revaluation of gold has time and time again taken place over the metaphorical "dead bodies" of finance ministers and their officials and that speculation, using dollars to acquire gold directly or indirectly, is one promising small risks of loss and large chances of gain. It is perhaps puzzling why there has not been more hedging in this sense, but perhaps the United States still has been protected by the ill wind of political instability in so many countries. If, however, enough hedging in this sense takes place, the United States still will not prove impregnable. Your domestic money supply is almost eight times as large as the net gold reserve (that is after allowing for short-term assets and liabilities) and a transfer of only a small proportion of the money supply through international exchanges will make large inroads into your gold reserves. If that were to happen, it would not be the first time that devaluation of a currency takes place because the nationals of a country transfer their funds abroad.

**Replenishing Reserves at U. S. Expense**

On the assumption that no action is taken on the price of gold and the substitute of aid is not employed on a large scale, then I still believe that the non-dollar countries have no option but to attempt to replenish their reserves at the expense of the United States holdings. The theoretical explanation is quite simple. Gold is not sold in the ordinary way and its so-called price amounts to its relation to credit. It will, therefore, tend to go to those countries where it can acquire by purchasing the local currency the most goods. Conversely gold will tend to move away from countries where credit is most plentiful in relation to goods. The obvious alternative open to these other countries is to reduce their prices in international trade by exchange depreciation and internal deflation. In practice they will most likely use both measures because the experience after the 1949 devaluation has shown clearly that the benefit obtained by initial lower prices in international trade can be completely thrown away if internal inflation restores the export prices in the currencies of foreigners to their former level.

Whatever may have been the justification for aid in the past, it now seems that the mood in your country is one desiring an end to the process. Its continuance into the future might be described as a hypocritical solution in that there is a refusal to make the "structural changes" which some of the critics so much desire. In any case I do not believe it is a solution. If the problem is to place a restraint on the further expansion of bank money, then I do not believe it is solved by further increasing the amount of credit available as between nations. One may delay the settlement but one increases the size of the bill which has to be met.

**International Illiquidity**

The IMF has recently published figures relating to the gold and foreign exchange reserves of most of the countries of the world, excluding the USSR. These figures show that, in terms of dollars, as between 1938 and 1952 the aggregate of the gold reserves has increased from a figure in the order of \$26 billion to one in the order of \$35 billion, while the foreign exchange reserves have, over the same period, risen from a figure of under \$2 billion to one of over \$18 billion. The size of this international indebtedness is eloquent testimony of the grave illiquidity that now exists in international banking and of the tremendous potential of deflation if debtors are refused further accommodation. For the moment, perhaps, many countries are in a mood of indecision as to whether or not to practice what their finance ministers preach, namely, to stop further inflation. If as is likely, domestic political considerations will cause them to place restraint on further credit expansion, then in the absence of further international accommodation, the illiquid situation can be resolved only by a destruction of credit through deflation.

I have not dealt with what might be called the argument of "Yankee caution" — I quote the phrase from a speech by an American. Many foreigners will say that in these past unhappy years the American till has acquired gold from hard-pressed customers who, in many cases, to feed themselves have had to exchange gold for dollars and in this exchange have received a price in goods that has been too low. The Yankee caution comes in saying why should the Americans pay more when they can acquire the gold cheaply. Whatever the past position was (and I would, of course, remember the impressive total of aid generously given), the prospects for the future must take into account the restoration of productive capacity in the non-dollar countries. Now the Paley and other reports have forecast greater purchases by the United States of materials from abroad. Yankee caution may, therefore, err in believing that the flow of gold to the United States will return and the gold-hungry countries are perhaps more likely to attempt, through a price war, to draw gold away from America. Such a price war through chain reactions can have most unpleasant consequences for the American domestic economy. I repeat, therefore, that *the real reason why America should agree to a general increase in the price of gold is that it would assist greatly in promoting the return to a stable system of convertible currencies.*

I do not wish to be gloomy, but in all countries businessmen are uneasy about the future. Despite the obscure texts of the New Money experts, they do not altogether believe that depressions have been abolished, and they fear that monetary values are out of line in that they cannot be maintained if the expansion of credit is to be restricted. Some, indeed, have the impression that they are in a motor car which is out of control and which they fear to brake, while, at the same time, they have a deeper fear that if it is not soon pulled up it will go clean over the precipice.

Now may I end more cheerfully? As regards the despised gold producers, there are now signs that the process of expansion of credit in relation to gold is slowing up and coming to an end, and there is reason for believing that in the future the prospect is that the ratio of cost to revenue in gold mining is again likely to decline. I would again claim that I have not, however, based the argument on the selfish interest of gold mining although I believe that a rational adjustment of the international monetary system would restore some of the profitability which has been taken away. Finally, as to the "prejudices," I would say that the winning of debates on the subject is merely of academic interest. What is of great practical interest is that the world again places credit under discipline. As someone from the edge of the world. I retain faith that your great country will yet deal with the problem fairly and squarely, and give a proper answer.

*Continued from first page*

# Adenauer's Victory And European Unity

bound to Germany, as we are bound to Korea. On a different plane and with different means at his disposal, a European Syngman Rhee has arisen. We cannot let the one down any more than the other. That is what worries the French and British more than anything else: that, for one thing, a growing share in our shrinking Foreign Assistance pie may go to Korea and Germany. Once the latter is rearmed, the Allies will quit Germany and she will have regained a large measure of military-political freedom of action—backed by the U. S. Which raises more questions than it answers. That is why, in order to reassure the French, the Administration hastens to their support by a fresh military subsidy in Indo-China and by an official declaration (by Mr. Dulles) of all-out protection of that area.

### The Overriding Issue

Free Enterprise vs. Socialism was the overriding election issue, rather than international affairs, to the peoples of the Federal Republic. Economic freedom does not mean to the Germans exactly what it means to us. It includes the "freedom" of entrepreneurs to entrench themselves behind monopolistic cartels; of the handicraft industries to retrench into guilds of a medieval color, etc. But it does mean minimizing the government's meddling in business; keeping Welfarism within bounds; generally not to do what the Socialists were promising: to hand over industrial management to trade union representatives; to raise further social security and other welfare contributions which absorb today some 22% of the country's national income; or to impose price, wage and profit controls. In any case, the Germans gave a confidence vote to the system that helped them to a spectacular recovery—by doing as little governing as possible, having no Four Year or Five Year Plans, and steadfastly refusing to join the Franco-British ideal of building up an inflation-ridden managed economy beset with incentive-stymying controls.

The very essence and historic significance of Adenauer's reelection is that his nation has foregone lofty Ideologies and turned to sound Economics as the road to salvation. And it gave the Chancellor's party a majority as no party has received either under the Kaiser or the Weimar Republic.

The debacle of the neo-fascists as well as of the Communists in the German elections, in contrast to the success of both groups at the recent Italian polls, has greatly enhanced Bonn's moral position in the Western World. Nazism is dead (for the time being, at any rate). Note that the Socialists, too, were campaigning on nationalistic slogans. Their argument, open or implied, was that entering the Defense Community might thwart every prospect of German unification, which is more likely to be achieved by the country's neutrality proposed by Moscow. Adenauer retorted that only a strong Europe has a chance to accomplish the same objective. In reality, the German people know very well that rearmament means the virtual end of unity aspirations for the visible future. But they do not care to dream any longer, having lived long enough in irrational (and immoral) fantasies.

### The Russian Puzzle

What will Russia do, is the decisive question. Will she sit by and wait until an American-equipped German army of 500,000 men stands ready at her vulnerable Western border? Or, will she threaten with shooting in order to prevent the Defense Community from coming into being? Most likely, she will try to stop it by diplomatic maneuvers. That is where the Four Power conference, planned for October, comes in—if it materializes, which is most unlikely to happen in the visible future. It is even doubtful whether and when the Korean peace conference (scheduled for late October) will get underway.

Short of using force that might spark World War III, the Soviets' prime weapon to postpone German armaments is to offer substantial concessions. But where? They cannot throw North Korea to the capitalistic "wolves" or forego the claim on China's admittance to the UN without alienating Peiping. In fact, the latter is balking to the extent of endangering the Korean peace parley scheduled for October—in order to force us into recognition, accepting its presence at the Four Power conference and raising the embargo on its "strategic" imports.

The concessions would have to be in the West. Signing the overdue Austrian treaty alone will not do. The agenda for the Four Power meeting is set by the U. S.: free elections in Eastern Germany in order that she should decide her own allegiance, with no strings attached (and no participation by Red China in the sessions, as Russia requested). However, free elections can go one way only, as the recent tumults in Berlin and other satellite areas have shown. But is Moscow ready to make any concessions? Without a guarantee that a united Germany would become "neutral," evacuating her Eastern half would be a political and economic sacrifice which the Soviets are not likely to swallow, certainly not while their military preponderance in Europe is assured. Even evacuating Austria would mean to them the loss of an appreciable source of revenues (at least $150 million annually) and of a foothold of some military and propagandistic importance.

Therefore, Soviet diplomacy must concentrate on the objective —to split the Atlantic Alliance, to win enough support in Britain, France and Italy for the postponement of German armaments. For three years they have been doing just that. They can be relied on for further attempts along the same line, also for saber-rattling and all sorts of trouble making. They offer **peace plus trade** with the one hand and a big fist in the other. This combination does not fail to impress Asia and even Europe. It feeds the trend toward "neutralism" and is a decisive factor behind the policy of the Atlantic Pact nations (excepting Greece and Turkey) to reduce and to stretch their military commitments, or behind Denmark's recent refusal to permit American air bases on her territory. Typical is Churchill's remark, last month, in Parliament: that the Russians must be given "satisfactory assurance" about the security of the Soviet Union. Russian security—against whom? And how? By one-sided scrapping of the atomic weapon, as the Soviets request it? And what are they willing to offer in exchange, other than a piece of paper?

### Position of France

France is the "key country" in this situation. Her excuse in holding up the treaty with Germany—and no European force can match the Russians even remotely without her—is that she cannot do her share unless she can extricate herself from the seven year old war in Indo-China, unless Britain joins the E.D.C. (which the isolation-minded British, remembering Dunkirk, steadfastly refuse), and unless the Germans give in on the thorny Saar question. Similarly, Italy makes her cooperation conditional on a pro-Italian solution of the Trieste question, a solution that is opposed tooth and nail by Tito—who is alarming Turkey and Greece by his unmistakable attempts to find his way back into the good graces of Moscow, this on the eve of a "Balkan parley" scheduled for October (a month of international parleys).

But Europe is virtually united — though without Adenauer and General Franco — in the conviction that nothing should be done that might irritate the Russians, arouse their suspicions, and interfere with a possible, very gradual, relaxation in the Cold War. France has us in a corner: if she gives up Vietnam, we would have to send 20 divisions there, or let it go Bolshevist by default—two equally unpalatable alternatives. And even if she signs the Defense treaty, she may sabotage it piecemeal.

Our foreign policy is caught on the mile-long horns of a dilemma. We know beyond the shadow of a doubt what the ultimate (and the immediate) goals of Soviet policy are. We know, too, that appeasement does not help, that any concession we make is appraised by the Bolshevists as a proof of weakness and is used as a jumping ground to extract more concessions. But the peoples of the free world, from Britain to Indonesia, are willing to make substantial concessions — expedients to avoid harassing problems of rearmament and of economic readjustments. They are sure of our protective might, and rely on Russia's industrial weaknesses, brought into the open by Malenkov himself.

Instead of answering by the offer of concessions of their own, the Soviets stir up more trouble in more places in order to keep our hands tied and discourage the Allies. They fan the fire of anti-colonial movements in French North Africa. The Mau Mau revolt in Kenya, which might spread all over central Africa, may have been sparked from Moscow, too. The Red-inspired strike threat in Chile's copper mines belongs in the same chapter, as does the fact that an ultra-leftist faction took over the reins of Indonesia. And there is little we can do on the diplomatic front.

### U. S. Is Stymied

At prsent, with or without Adenauer, we are stymied in Europe as well as in Korea and Indo-China. Eisenhower has his diplomatic hands tied behind his back—as MacArthur's military hands were tied when he was not permitted to hit the enemy where it would hurt. The analogy may seem far fetched, but the naked truth is that we cannot proceed with Germany's armaments without France's consent; and the final price she may be asking for that consent, if it is forthcoming at any price, we do not even know. No French government dares to challenge the country's public opinion that is overwhelmingly opposed to entering the European Defense Community until and unless **every** avenue of dialogues with Moscow has been thoroughly explored (and exploded).

Small wonder that Moscow is in no haste to bring matters on the conference stage while German armaments make no progress whatsoever. Once on that stage, they will keep debating and procrastinating. In the meantime, Europe makes every effort to get to a "deal" with the Kremlin. The latest and most conspicuous effort along this line is the French offer to mediate the conflict in Viet Nam, implying that they are willing to quit under "honorable" terms, whatever that means. But the revolutionary forces in Indo-China are likely to make another forceful attempt to bring about a decision (before full-scale American intervention might be thrown in) or at least to improve their bargaining position for the coming deal. Their chances are fair in view of the half-heartedness of the French who are reconciled to the loss of that colony and are not interested in "ideological" war, in fighting for what they consider a remote abstraction; a Free World as far away as the Far East, the global objective of "naive" and "clumsy" Americans. And most of Europe shares this mentality, which threatens the Atlantic community with disintegration.

It tries to ignore the essentially irreconcilable conflict, in the words of the French political philosopher, Bertrand de Jouvenel:

"The Soviet leaders are determined that we shall be ultimately subjected to their values; we are not reconciled to the prospect that the subjected peoples and the Russian people itself should remain forever under the yoke of Bolshevik despotism. Therefore a peace of amity is quite out of the question. Neither side wishes to run the awful risk of a general war, but neither side is prepared to recognize wholeheartedly the legitimacy of the principles, rules and customs in the other world."

Whether the Defense Community is the right way toward winning in this conflict, is another question. Europe is inclined to believe that no such "bankrupting" armaments as we are trying to force on them are needed in the Age of Air Power. That is a strong point, indeed, which army generals and navy admirals like to ignore.

### A Basic Weakness

Europe's appeasing mentality reflects a basic weakness, illustrated by the recent general strikes in France and Italy. It is difficult not to sympathize with the employees in those countries, their majority receiving real incomes which would be considered sub-standard on this side. But how can wages be raised when "fringe" expenditures of business amount in Italy, as an example, to over 70% (!) of the wage bill? And when total labor costs are already out of proportion to labor productivity (especially so in Britain, Sweden, Norway and Finland)? Raising productivity by 10%—labor's full-scale co-operation replacing its recalcitrant attitude—is the answer, as Graham Hutton's excellent book ("We Too Can Prosper") points out with rich documentation. Given low output per man-hour and **relatively** high labor costs in industry, with productivity rising much faster in America than in Europe, the latter's Dollar Gap can never be bridged, whatever Aid we may extend.

### Currency Convertibility

Convertibility of the sterling, and of the rest, can only be established under such circumstances if Uncle Sam "holds the bag": guarantees it. The September meeting of the World Bank and International Fund chiefs brought out clearly: that Europe "needs" a huge stabilization fund ($10 billion were tossed around); and that the U. S. Government has not the remotest intention of providing it. In fact, Secretaries Humphrey and Weeks went on record against (in the latter's own words) "international handouts and global boondoggling." However, they referred to economic aid; military aid, which does the same "economic" tricks (such as by offshore purchases) was left open. But at least, Europe knows that no further expansion on a large scale of American assistance can be expected.

Accordingly, sterling convertibility is a "dead" issue for the time being. British efforts are concentrated on stopping Belgium and Germany in "jumping the gun": proceeding, as they would like to, to scrap their foreign exchange barbed-wires—join the Dollar Area — instead of waiting for Britain to take the lead. That would be a serious blow to the inner-mechanism of the Sterling Area. It is doubtful whether Germany's courageous Dr. Erhard dares to undertake it.

### Foreign Aid

Facing the Capehart Committee of the U. S. Senate, Mr. Weeks, Secretary of Commerce, did some blunt speaking. The time is past, he said, when the United States could create strength abroad "by global boondoggling and handouts wrung from the taxpayer." "Now we are about to take the crutches away from the patient, and we ought to sell him a cane to walk with." The Secretary of the Treasury spoke to the same effect. But both referred to what they called direct economic aid, not military aid.

Yet, military aid is just as economic — at both ends — as the other kind. Much of it consists actually in offshore purchases; some of it is distracted into non-military use; all of it relieves the recipients' financial burdens. And as to our end of the business, the one kind does not cost any less than the other. This fiscal year's total Foreign Assistance of over $6½ billion will be the highest ever disbursed in a single year. In view of the growing and self-complicating international situation, there is little prospect of relieving the American taxpayer on this score. In fact there is a distinct possibility that the $1 to $2 billion savings in the defense budget, promised for fiscal 1954 by Secretary Wilson, will be "swallowed" by additional spending abroad: from Korea to Spain. They may not even suffice if France and Germany should be "united" in joint armaments.

# 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. 18 | §94.4 | *95.2 | 91.4 | 106.5 |
| Equivalent to— | | | | | |
| Steel ingots and castings (net tons) | Oct. 18 | §2,129,000 | *2,146,000 | 2,060,000 | 2,211,000 |
| **AMERICAN PETROLEUM INSTITUTE:** | | | | | |
| Crude oil and condensate output—daily average (bbls. of 42 gallons each) | Oct. 3 | 6,442,700 | 6,486,450 | 6,533,900 | 6,514,500 |
| Crude runs to stills—daily average (bbls.) | Oct. 3 | ¶6,893,000 | 6,880,000 | 7,228,000 | 6,928,000 |
| Gasoline output (bbls.) | Oct. 3 | 24,045,000 | 23,916,000 | 24,805,000 | 23,451,000 |
| Kerosene output (bbls.) | Oct. 3 | 2,553,000 | 2,362,000 | 2,295,000 | 2,595,000 |
| Distillate fuel oil output (bbls.) | Oct. 3 | 10,312,000 | 9,757,000 | 10,075,000 | 10,423,000 |
| Residual fuel oil output (bbls.) | Oct. 3 | 8,249,000 | 8,062,000 | 9,148,000 | 8,966,000 |
| Stocks at refineries, bulk terminals, in transit, in pipe lines— | | | | | |
| Finished and unfinished gasoline (bbls.) at | Oct. 3 | 143,222,000 | 142,484,000 | 142,850,000 | 119,793,000 |
| Kerosene (bbls.) at | Oct. 3 | 37,260,000 | 36,924,000 | 35,901,000 | 35,212,000 |
| Distillate fuel oil (bbls.) at | Oct. 3 | 127,052,000 | 126,217,000 | 120,974,000 | 118,078,000 |
| Residual fuel oil (bbls.) at | Oct. 3 | 51,912,000 | 51,936,000 | 51,030,000 | 54,617,000 |
| **ASSOCIATION OF AMERICAN RAILROADS:** | | | | | |
| Revenue freight loaded (number of cars) | Oct. 3 | 812,554 | 819,709 | 799,079 | 851,920 |
| Revenue freight received from connections (no. of cars) | Oct. 3 | 672,846 | 669,259 | 666,941 | 723,326 |
| **CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:** | | | | | |
| Total U. S. construction | Oct. 8 | $170,028,000 | $382,583,000 | $320,985,000 | $341,573,000 |
| Private construction | Oct. 8 | 84,188,000 | 258,724,000 | 191,972,000 | 204,680,000 |
| Public construction | Oct. 8 | 85,840,000 | 123,859,000 | 129,013,000 | 136,893,000 |
| State and municipal | Oct. 8 | 71,446,000 | 98,659,000 | 109,153,000 | 93,093,000 |
| Federal | Oct. 8 | 14,394,000 | 25,200,000 | 19,860,000 | 43,800,000 |
| **COAL OUTPUT (U. S. BUREAU OF MINES):** | | | | | |
| Bituminous coal and lignite (tons) | Oct. 3 | 9,230,000 | *9,660,000 | 9,620,000 | 9,109,000 |
| Pennsylvania anthracite (tons) | Oct. 3 | 678,000 | 682,000 | 558,000 | 876,000 |
| Beehive coke (tons) | Oct. 3 | 89,000 | *87,400 | 93,900 | 85,600 |
| **DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1947-49 AVERAGE = 100** | Oct. 3 | 112 | *114 | 101 | 116 |
| **EDISON ELECTRIC INSTITUTE:** | | | | | |
| Electric output (in 000 kwh.) | Oct. 10 | 8,307,309 | 8,414,452 | 7,962,823 | 7,697,880 |
| **FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET, INC.** | Oct. 8 | 186 | 189 | 131 | 147 |
| **IRON AGE COMPOSITE PRICES:** | | | | | |
| Finished steel (per lb.) | Oct. 6 | 4.634c | 4.634c | 4.634c | 4.376c |
| Pig iron (per gross ton) | Oct. 6 | $56.59 | $56.59 | $56.76 | $55.26 |
| Scrap steel (per gross ton) | Oct. 6 | $31.33 | $31.50 | $38.67 | $42.00 |
| **METAL PRICES (E. & M. J. QUOTATIONS):** | | | | | |
| Electrolytic copper— | | | | | |
| Domestic refinery at | Oct. 7 | 29.650c | 29.475c | 29.700c | 24.200c |
| Export refinery at | Oct. 7 | 28.175c | 28.300c | 29.025c | 34.500c |
| Straits tin (New York) at | Oct. 7 | 81.500c | 84.000c | 82.750c | 121.500c |
| Lead (New York) at | Oct. 7 | 13.500c | 13.500c | 14.000c | 15.000c |
| Lead (St. Louis) at | Oct. 7 | 13.300c | 13.300c | 13.800c | 14.800c |
| Zinc (East St. Louis) at | Oct. 7 | 10.000c | 10.000c | 10.500c | 13.600c |
| **MOODY'S BOND PRICES DAILY AVERAGES:** | | | | | |
| U. S. Government Bonds | Oct. 13 | 95.08 | 95.52 | 92.83 | 96.12 |
| Average corporate | Oct. 13 | 104.83 | 104.31 | 103.47 | 109.42 |
| Aaa | Oct. 13 | 109.79 | 109.42 | 107.80 | 113.12 |
| Aa | Oct. 13 | 106.74 | 106.21 | 105.52 | 111.81 |
| A | Oct. 13 | 104.31 | 103.80 | 102.96 | 108.88 |
| Baa | Oct. 13 | 98.88 | 98.41 | 97.94 | 103.47 |
| Railroad Group | Oct. 13 | 102.96 | 102.63 | 101.80 | 106.21 |
| Public Utilities Group | Oct. 13 | 104.66 | 104.14 | 102.80 | 109.24 |
| Industrials Group | Oct. 13 | 106.92 | 106.39 | 106.04 | 112.56 |
| **MOODY'S BOND YIELD DAILY AVERAGES:** | | | | | |
| U. S. Government Bonds | Oct. 13 | 2.84 | 2.81 | 3.01 | 2.77 |
| Average corporate | Oct. 13 | 3.46 | 3.49 | 3.54 | 3.21 |
| Aaa | Oct. 13 | 3.18 | 3.20 | 3.29 | 3.00 |
| Aa | Oct. 13 | 3.35 | 3.38 | 3.42 | 3.07 |
| A | Oct. 13 | 3.49 | 3.52 | 3.57 | 3.23 |
| Baa | Oct. 13 | 3.82 | 3.85 | 3.88 | 3.54 |
| Railroad Group | Oct. 13 | 3.57 | 3.59 | 3.64 | 3.38 |
| Public Utilities Group | Oct. 13 | 3.47 | 3.50 | 3.58 | 3.21 |
| Industrials Group | Oct. 13 | 3.34 | 3.37 | 3.39 | 3.03 |
| **MOODY'S COMMODITY INDEX** | Oct. 13 | 393.8 | 393.9 | 415.1 | 425.8 |
| **NATIONAL PAPERBOARD ASSOCIATION:** | | | | | |
| Orders received (tons) | Oct. 3 | 371,431 | 226,801 | 349,603 | 335,236 |
| Production (tons) | Oct. 3 | 259,699 | 257,907 | 259,476 | 240,751 |
| Percentage of activity | Oct. 3 | 98 | 98 | 98 | 95 |
| Unfilled orders (tons) at end of period | Oct. 3 | 590,808 | 481,985 | 555,638 | 553,261 |
| **OIL, PAINT AND DRUG REPORTER PRICE INDEX—1949 AVERAGE = 100** | Oct. 9 | 105.70 | 105.58 | 105.91 | 109.27 |
| **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. 26 | 21,815 | 34,976 | 23,919 | 24,083 |
| Number of shares | Sept. 26 | 623,419 | 976,867 | 678,243 | 689,120 |
| Dollar value | Sept. 26 | $25,418,527 | $37,936,203 | $29,531,886 | $31,188,227 |
| Odd-lot purchases by dealers (customers' sales)— | | | | | |
| Number of orders—Customers' total sales | Sept. 26 | 18,578 | 28,379 | 19,764 | 21,292 |
| Customers' short sales | Sept. 26 | 288 | 435 | 300 | 128 |
| Customers' other sales | Sept. 26 | 18,290 | 27,944 | 19,464 | 21,164 |
| Number of shares—Total sales | Sept. 26 | 534,203 | 847,733 | 573,909 | 599,922 |
| Customers' short sales | Sept. 26 | 10,686 | 16,293 | 9,777 | 4,840 |
| Customers' other sales | Sept. 26 | 523,517 | 831,440 | 564,132 | 595,082 |
| Dollar value | Sept. 26 | $20,078,962 | $31,222,876 | $22,136,838 | $24,376,660 |
| Round-lot sales by dealers— | | | | | |
| Number of shares—Total sales | Sept. 26 | 146,830 | 241,900 | 189,600 | 173,400 |
| Short sales | Sept. 26 | ------ | ------ | ------ | ------ |
| Other sales | Sept. 26 | 146,830 | 241,900 | 189,600 | 173,400 |
| Round-lot purchases by dealers— | | | | | |
| Number of shares | Sept. 26 | 273,210 | 363,740 | 256,750 | 276,640 |
| **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. 19 | 510,080 | 221,030 | 205,990 | 190,800 |
| Other sales | Sept. 19 | 9,417,650 | 4,503,390 | 4,994,740 | 5,626,080 |
| Total sales | Sept. 19 | 9,927,730 | 4,724,420 | 5,200,730 | 5,816,880 |
| **ROUND-LOT TRANSACTIONS FOR ACCOUNT OF MEMBERS, EXCEPT ODD-LOT DEALERS AND SPECIALISTS:** | | | | | |
| Transactions of specialists in stocks in which registered— | | | | | |
| Total purchases | Sept. 19 | 1,043,980 | 411,160 | 529,480 | 556,920 |
| Short sales | Sept. 19 | 171,850 | 80,560 | 78,690 | 89,140 |
| Other sales | Sept. 19 | 908,790 | 377,710 | 434,510 | 427,290 |
| Total sales | Sept. 19 | 1,080,640 | 458,270 | 513,200 | 516,430 |
| Other transactions initiated on the floor— | | | | | |
| Total purchases | Sept. 19 | 228,300 | 74,100 | 87,700 | 136,020 |
| Short sales | Sept. 19 | 37,600 | 9,900 | 4,100 | 15,400 |
| Other sales | Sept. 19 | 236,100 | 87,930 | 85,340 | 111,800 |
| Total sales | Sept. 19 | 273,700 | 97,830 | 89,440 | 127,200 |
| Other transactions initiated off the floor— | | | | | |
| Total purchases | Sept. 19 | 352,320 | 189,375 | 215,300 | 212,950 |
| Short sales | Sept. 19 | 57,290 | 36,430 | 38,660 | 31,800 |
| Other sales | Sept. 19 | 278,294 | 165,350 | 213,760 | 225,295 |
| Total sales | Sept. 19 | 335,584 | 201,780 | 252,420 | 257,095 |
| Total round-lot transactions for account of members— | | | | | |
| Total purchases | Sept. 19 | 1,624,600 | 674,635 | 832,480 | 905,890 |
| Short sales | Sept. 19 | 266,740 | 126,890 | 121,450 | 136,340 |
| Other sales | Sept. 19 | 1,423,184 | 630,990 | 733,610 | 764,385 |
| Total sales | Sept. 19 | 1,689,924 | 757,880 | 855,060 | 900,725 |
| **WHOLESALE PRICES, NEW SERIES — U. S. DEPT. OF LABOR — (1947-49 = 100):** | | | | | |
| Commodity Group— | | | | | |
| All commodities | Oct. 6 | 110.2 | *110.7 | 110.4 | 111.1 |
| Farm products | Oct. 6 | 96.1 | 98.1 | 96.5 | 106.6 |
| Processed foods | Oct. 6 | 104.2 | *104.8 | 104.1 | 108.5 |
| Meats | Oct. 6 | 89.9 | *92.6 | 89.4 | 108.3 |
| All commodities other than farm and foods | Oct. 6 | 114.4 | 114.6 | 114.7 | 112.6 |

*Revised figure. ¶Includes 624,000 barrels of foreign crude runs (Sept. 26, 1953 figure revised to 635,000 barrels). §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 |
|---|---|---|---|
| **BANK DEBITS — BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM—Month of July (in thousands)** | $148,135,000 | $154,106,000 | $137,334,000 |
| **BUILDING PERMIT VALUATION — DUN & BRADSTREET, INC.—215 CITIES—Month of August:** | | | |
| New England | $18,057,583 | $35,440,904 | $19,708,500 |
| Middle Atlantic | 81,114,403 | 115,517,012 | 99,127,711 |
| South Atlantic | 45,990,216 | 59,936,559 | 29,171,991 |
| East Central | 96,190,676 | 124,191,865 | 79,183,176 |
| South Central | 50,434,647 | 58,800,352 | 52,961,261 |
| West Central | 29,246,394 | 33,436,622 | 34,059,337 |
| Mountain | 11,743,728 | 15,517,964 | 13,489,270 |
| Pacific | 87,422,481 | 87,349,928 | 66,923,436 |
| Total United States | $420,200,128 | $530,191,206 | $394,624,682 |
| New York City | 38,704,044 | 69,097,923 | 69,916,114 |
| Outside New York City | 381,496,084 | 461,093,283 | 324,708,568 |
| **BUSINESS INVENTORIES — DEPT. OF COMMERCE NEW SERIES — Month of July (millions of dollars):** | | | |
| Manufacturing | $45,670 | *$45,525 | $42,748 |
| Wholesale | 10,420 | *10,400 | 9,890 |
| Retail | 22,054 | *21,572 | 20,127 |
| Total | $78,144 | *$77,497 | $72,765 |
| **CONSUMER PRICE INDEX—1947-49 = 100—Month of August:** | | | |
| All items | 115.0 | 114.7 | 114.3 |
| Food | 114.1 | 113.8 | 116.6 |
| Food at home | 114.1 | 113.8 | 116.6 |
| Cereals and bakery products | 119.5 | 119.1 | 117.5 |
| Meats, poultry and fish | 114.1 | 112.0 | 119.4 |
| Dairy products | 109.1 | 108.3 | 111.0 |
| Fruits and vegetables | 112.7 | 118.2 | 118.7 |
| Other foods at home | 114.4 | 112.3 | 113.1 |
| Housing | 118.0 | 117.8 | 114.6 |
| Rent | 125.1 | 123.8 | 118.2 |
| Gas and electricity | 106.9 | 106.4 | 105.0 |
| Solid fuels and fuel oil | 123.9 | 123.7 | 119.0 |
| Housefurnishings | 107.4 | 108.1 | 107.6 |
| Household operation | 115.8 | 115.7 | 111.9 |
| Apparel | 104.3 | 104.4 | 105.1 |
| Transportation | 130.6 | 129.7 | 127.0 |
| Medical care | 121.8 | 121.5 | 118.1 |
| Personal care | 112.7 | 112.6 | 112.1 |
| Reading and recreation | 107.6 | 107.4 | 107.0 |
| Other goods and services | 118.4 | 118.3 | 115.9 |
| **FACTORY EARNINGS AND HOURS—WEEKLY AVERAGE ESTIMATE — U. S. DEPT. OF LABOR—Month of August:** | | | |
| Weekly earnings— | | | |
| All manufacturing | $71.69 | $71.51 | $67.23 |
| Durable goods | 77.27 | *76.89 | 72.16 |
| Nondurable goods | 63.92 | *63.76 | 61.45 |
| Hours— | | | |
| All manufacturing | 40.5 | 40.4 | 40.5 |
| Durable goods | 41.1 | *40.9 | 41.0 |
| Nondurable goods | 40.0 | *40.0 | 40.7 |
| Hourly earnings— | | | |
| All manufacturing | $1.77 | $1.77 | $1.66 |
| Durable goods | 1.88 | 1.88 | 1.76 |
| Nondurable goods | 1.61 | 1.61 | 1.54 |
| **LIFE INSURANCE—BENEFIT PAYMENTS TO POLICYHOLDERS — INSTITUTE OF LIFE INSURANCE—Month of July:** | | | |
| Death benefits | $162,438,000 | $169,925,000 | $154,506,000 |
| Matured endowments | 36,873,000 | 39,094,000 | 33,809,000 |
| Disability payments | 9,265,000 | *8,733,000 | 8,845,000 |
| Annuity payments | 33,908,000 | 34,018,000 | 31,200,000 |
| Surrender values | 57,780,000 | *60,133,000 | 52,947,000 |
| Policy dividends | 61,713,000 | 71,958,000 | 57,194,000 |
| Total | $361,977,000 | *$383,861,000 | $338,501,000 |
| **MONEY IN CIRCULATION—TREASURY DEPT.—As of July 31 (000's omitted)** | $30,120,000 | *$30,125,000 | $28,978,000 |
| **PERSONAL INCOME IN THE UNITED STATES (DEPARTMENT OF COMMERCE)—Month of July (in billions):** | | | |
| Total personal income | $288.1 | *$286.3 | $266.3 |
| Wage and salary receipts, total | 201.2 | *199.5 | 180.3 |
| Total employer disbursement | 197.3 | *195.6 | 176.7 |
| Commodity producing industries | 90.9 | *89.8 | 75.8 |
| Distributing industries | 52.5 | *52.2 | 49.5 |
| Service industries | 24.1 | 23.9 | 22.2 |
| Government | 33.7 | 33.6 | 32.8 |
| Less employee contributions for social insurance | 4.2 | *4.2 | 3.8 |
| Other labor income | 5.1 | 5.1 | 4.7 |
| Proprietors and rental income | 50.0 | *50.1 | 51.5 |
| Personal interest income and dividends | 22.5 | 22.3 | 20.9 |
| Total transfer payments | 13.5 | 13.5 | 12.7 |
| Total nonagricultural income | 270.5 | *268.8 | 246.0 |
| **PRICES RECEIVED BY FARMERS — INDEX NUMBER — U. S. DEPT. OF AGRICULTURE—August, 1909-July, 1941 = 100—As of July 15:** | | | |
| Unadjusted— | | | |
| All farm products | 259 | 259 | 295 |
| Crops | 237 | 251 | 276 |
| Food grain | 218 | 222 | 230 |
| Feed grain and hay | 197 | 198 | 227 |
| Tobacco | 426 | 425 | 436 |
| Cotton | 269 | 266 | 311 |
| Fruit | 207 | 253 | 214 |
| Truck crops | 216 | 270 | 287 |
| Oil-bearing crops | 268 | 280 | 307 |
| Livestock and products | 280 | 267 | 312 |
| Meat animals | 318 | 299 | 376 |
| Dairy products | 261 | 254 | 286 |
| Poultry and eggs | 223 | 213 | 208 |
| **U. S. GOVT. STATUTORY DEBT LIMITATION—As of August 31 (000's omitted):** | | | |
| Total face amount that may be outstanding at any time | $275,000,000 | $275,000,000 | $275,000,000 |
| Outstanding— | | | |
| Total gross public debt | 273,205,827 | 272,669,407 | 263,185,643 |
| Guaranteed obligations not owned by the Treasury | 63,269 | 62,943 | 39,217 |
| Total gross public debt and guaranteed obligations | $273,269,096 | $272,732,350 | $263,224,860 |
| Deduct—other outstanding public debt obligations not subject to debt limitation | 580,797 | 584,029 | 632,618 |
| Grand total outstanding | $272,688,299 | $272,148,321 | $262,592,241 |
| Balance face amount of obligations, issuable under above authority | 2,311,700 | 2,851,678 | 12,407,758 |

*Continued from page 10*

# The Public and the Oil Industry

what to do. Neither did I come here to belabor points which are discussed much more adequately in the trade journals. I simply used that illustration that no satisfactory method has yet been found by which we can have both conservation and indiscriminate competition, and that we shall be subject to a great deal of suspicion until that point is generally understood, because that is the kind of material which is front page news. It seems to me that the things we should be telling the public are the facts connected with the matters on which it has already shown some interest. In determining what those matters are we have only to look at the items which become front page news. Questions of adequate supply, of imports, or petroleum as a factor in international tension, of sensational technological developments, all have been selected by newspaper editors as matters of great general interest. Even more prosaic items such as capital investment have occasionally been given some play.

### Eschew Guilt Complex

In dealing with news items of this sort we do not need to put on a truculent sneer or go around knocking chips off peoples' shoulders, but we certainly do not need to be on the defensive. When a former President of the United States, in referring to the tidelands issue, said in a radio address "If that isn't stealing from the people, then I don't know what is," then we have to take him at his word and conclude that he doesn't know what is, for it is not stealing from the people.

I said a minute ago that we did not need to be on the defensive. By that I really mean that we do not have to accept any inference of guilt. We obviously must be on the defensive when answering irresponsible charges or unexpected accusations. Of course, there is nothing new in this. It happens to everyone.

Every individual, every company, every industry occasionally finds itself plunged into some situation where through basic misconception, or through current misunderstanding, its good health is impaired and its effectiveness seriously threatened.

We can't anticipate every misconception and thereby avoid the necessity of answering questions which more often than not are based on a desire to clear up misunderstandings. Neither can we so permeate the industry with economic information that the newest man on the service station drive or the newest truck driver can explain all the issues involved in the Near East controversy or problems connected with import quotas. But I think we can establish an atmosphere of candor and integrity so that the public will get the impression, properly enough, that in pursuing our efforts to keep a business healthy and prosperous we are at the same time building the best assurance of continuous dependable service. We can have them understand that in an industry of this size and importance problems will continuously arise which involve sharply differing interests which must be reconciled, that in their solution, elements of self-interest are bound to assert themselves, that there is nothing wrong in this but that it is the natural process of working toward a practical program. I believe we can have it understood that these statements of self-interest are the proper and natural actions of a man seeking what he thinks is coming to him and that such statements do not automatically characterize him as an anti-social "special interest" or a malefactor of great or even of little wealth.

### Some Advice on Publicity Policy

What is wrong with a man's stating what he wants and then with the normal ethical and decent limitations doing his best to get it? Isn't that what you do in a meeting like this; determine what objectives you all have in common so that your strength as an organization can be enrolled toward reaching them? In many cases, possibly too many to suit you, you find that these objectives run counter to those of others whose interests must be taken into account or who have enough strength to assert their right of way. Now isn't that just a normal process? How else would you do it in an industry as complex as ours and so closely tied in with the interests of society? The only mistake I think we commit then is to make the childish assumption that the other party in seeking his own best interests is doing a dirty trick, that he ought to set aside every activity in his own interest and work exclusively for ours. If we don't make that silly mistake, then the whole process becomes the healthy one of working toward the best integration of all the interests and of establishing the best modus operandi. It can be given all of the publicity possible and need never be regarded as washing our dirty linen in public.

You have all heard, as I have, countless observations which carried with them the inference of guilt. They go about like this: "The oil industry is notoriously able to look out for itself, in other words, it is pretty much a below-the-belt industry." That one was actually made in Washington in 1942 and I can cite chapter and verse on it. Another one, referring to the unique record of internally generated capital, is: "That means you made your customers contribute your capital." Is there a more legitimate source of funds than that of voluntary transactions? The more that the American economy is powered from that source, the less reliance we shall find being placed upon subsidies, special handouts, tax favoritism, political preference and five percenters.

Probably behind the attitude which such comments reveal is an unanalyzed resentment toward what seems a conspicuous prosperity. From its early days it created some colossal fortunes and the process hasn't seemingly stopped yet. It has created many accidental fortunes where good luck has played a more important role than business efficiency or service to society. That has been largely in the production end of the business and it has always been characteristic of extractive industries. The only difference there is that petroleum so far outranks in dollar volume the other minerals that this fact of accidental wealth is commonly ignored. I was interested to read recently in the "Ethyl News," as you probably were, that the original price of the Louisiana Purchase is now being returned every three days from the petroleum alone which is recovered from that territory. Facts such as this may capture people's imagination. They may even cause them to admire and respect an industry, which is doubtful, but they are also apt to arouse envy and the suspicion of greed on which opportunistic politicians may capitalize.

In looking back at my remarks so far, I may have dwelt unduly on some of our internal problems and differences. You may therefore wonder how I can relate them to a public relations program. I don't think that is so difficult. First I would point out that they are those which are bound to be associated with an industry of health and energy. We can't possibly have a dynamic industry without those problems. You have all probably heard of the parents who had a healthy, active little devil for a son. Blind to the fact that in the course of nature those qualities were desirable, they constantly bemoaned the fact that he ate them out of house and home, outgrew his clothes and wore out his shoes and stockings. One day he died, and the neighbors, having taken the parents seriously, all came in and congratulated them on his death. So it is with us. The industry has been called lawless. In some respects it has been that, but the kind of law it has tested has been that which would restrain it in performing its task. Its tremendous contribution to our industrial society has been due in no small part to the fact that it is imbued with an indomitable spirt that the show must go on. When petty restraints threatened that philosophy something had to give and it was very seldom the oil industry.

### No Wallowing in Self-Pity

That is the story that must be told in all its ramifications. Many of the trade journals have hammered away at this theme. It is no reflection upon them, however, to point out that their penetrating editorials are generally limited in circulation to the members of the industry. The ultimate effectiveness of these editorials will be measured by the extent to which we take them to heart and multiply them in our relationships outside the industry. Failing to do that we tend actually to defeat their purpose by wallowing in self-pity.

As you and I go about our daily tasks there seems to be little that is glamorous or that can kindle our enthusiasm. Just bear in mind that it is always that way. The boys who sailed under Hawkins or Drake or repelled the Armada didn't at the time see much glamor in it. It took the novelists and Hollywood to do that. We don't hear any cheers as we cross any goal line or pass any reviewing stand. Actually that little crowded hour of glory of those marches up Broadway or Pennsylvania Avenue are a pitifully inadequate pay for the long, arduous, unglamorous service upon which that glory was based.

So with our work. Each of our tasks has much in it that is humdrum and seems to contain little that makes a good story for public attention. Production, with its tin hats and great gambles, yes; refining, with its mammoth plants and enormous investment, yes; even transportation, with its tankers and pipe lines; but not marketing; actually while the part each of us plays is small, the total is one of the most surprising miracles of our modern society. Just dwell on the fact that you and thousands of others by your own free selection have found for yourselves an economically useful niche in a distribution system that for tonnage and uninterrupted continuity is not matched by any other industry either in this country or anywhere else in the world. Think about it and then go out and tell somebody about it. You might point out at the same time that many of our seeming front page troubles are the direct result of an industry willingly and deliberately overbuilding its refining capacity by 800,000 barrel-days in the interest of national defense and in response to a government request. Tell them that those problems, which we shall meet and solve, are the alternative to putting millions of taxpayers' dollars in moth-balls. Call their attention to the sense of responsibility which has been so ingrained that we don't even think about it ourselves.

### Oil Industry Has Remade the World

You can have a profound satisfaction in being indentified with an industry which through supplying lubricants and power and heat has remade our world. Point out that this dramatic development could not help but create problems new to our society and to our lawmakers. Instead of looking back with any sense of embarrassment or need for apology, point out that they haven't seen anything yet. As this giant continues to mechanize and industrialize the world new problems and international tensions are sure to accompany that process. Ask how those problems can be avoided.

On every front as we go forward with this new type of departmentalized and interdependent society, we are creating most acute social and economic problems. We can not escape them. The proving grounds for new ideas, new experiments and new legislation must be in those industries which spearhead that great advance. The oil industry by its very size, by its unbelievably diversified composition, ranging from one man businesses to the world's largest corporation, by the fact that it indispensable to society is certain to be at the very forefront of this movement.

Those matters are of burning interest to us and editors by their selection have indicated that they are no less interesting to others.

### Two Current Problems of Petroleum Industry

Among the many day to day problems of the petroleum industry, two stand out above the rest deserving not only our attention but our best thought and study for many years to come. These are (1) the gigantic task of expansion as the fact that this is a petroleum age becomes more and more apparent, and (2) the relations with government and society which, for a variety of reasons are too often strained.

The problems incident to the first are more commonly recognized, and being of a more tangible nature, promise to be more readily solved. They include the ever-widening exploration, new manufacturing techniques, new and more economical methods of distribution, and, in many cases, most acute financial problems. These, however, as baffling and challenging as they may appear to be, have been the standard bread and butter diet of a dynamic industry. It is an industry whose members have taken a justifiable pride in its 90-year history.

The second problem, that of maintaining good relations with society and the best possible working relationship with the government, will call for much more astuteness and for industrial statesmanship of the highest order.

The same size and importance which have developed such pride and enthusiasm within the industry are certain to have a sobering effect as well. This very importance implies a most serious and awful responsibility. Any long continued interruption in the flow of petroleum products to our modern industrial society is unthinkable.

The government having built up a stupendous military machine constantly dependent for its effectiveness upon adequate supplies of petroleum, and the public, whose needs are less dramatic, perhaps, but no less essential, each have a stake in this industry which we must acknowledge. That stake will prompt them to keep the petroleum industry under constant scrutiny, which would be unnecessary and uncalled for in a less essential and more obscure industry. They will go farther and require factual rather than oral assurances. As I see it, that development is inescapable.

But, when such satisfactory assurances have been given, the industry has a right to a freedom of operation which will enable it to perform without petty and hamstringing restraints.

The picture will be complicated by the enlarged world-wide activities and by the growing volume of imports. It may be aggravated by dependence upon government for hard-to-get materials. And the efficiency of the industry is sure to be reduced when required to defend itself against costly and politically inspired law suits.

### Conclusions

While I have no intention of listing the innumerable problems of which I have given a few illustrations, I should like to distill a few conclusions from these remarks:

First, the type of story which has general public interest and therefore real news value is not the kind which can be told in paid advertising space and signed and underwritten by an entire industry.

Second, the interests of different members of this industry are so divergent that they are bound to produce conflicts. Instead of concealing them or being embarrassed by them we should point out that they are the most positive evidence of a healthy competitive industry.

Third, the social and international problems are unavoidable but not insuperable. They will actually be more readily solved with a wider understanding.

Fourth, we cannot hope to have people generally more aware of our internal processes and functions than we ourselves are of other industries. We can work toward having them believe that this industry is in extremely competent and ethical hands. I believe that such an opinion is merited.

It behooves the industry to keep its skirts immaculately clean, to preserve the high degree of competition which has characterized it for 40 years, to live up scrupulously to the responsibilities which its size and importance have forced upon it. Then, having satisfied these conditions, it has a right to look for understanding and fair treatment from the society which it serves.

*Continued from first page*

# Business Outlook and the Coming Test of Management

tion is the last. But how many men do we all know who had capital but no foresight and shortly had neither? How many others do we know who had foresight but no capital and shortly had both?

Management, in a short phrase, is high priced help which is employed by capital. In turn, it employs labor. And as a parenthetical observation to demolish another very common current fallacy, the laborer is not a commodity but the labor he provides is nothing else but the product of his skill, his experience and his energy. It is the thing he has to sell and he is entitled to get as fair a price for it as is possible.

Management manages a business in the interests of capital, of labor and of itself. Its ability is not determined by its experience during periods of prosperity but rather by its ability to avert or avoid disaster and to reconstruct and recover from any disaster which is unavoidable. The ultimate test of management is whether it is resourceful.

**Formula for Starting a Business**

The formula for starting any business is very simple. It requires three "C's" — Constructive imagination enough to visualize something as possible; Courage enough to undertake it; and Capital or the confidence of capital, which is Credit, in order to set it in motion. Given all of these, any business will succeed for a time but no business has ever succeeded indefinitely and without encountering some obstacle of an unexpected nature which would ordinarily reverse its course. That is the point at which we separate the men from the boys and we learn whether management can turn that business around and start it back up hill or whether the business will be as short-lived as has been the history of most of the automobile companies which started during the past 50 years.

The statistics here are almost unbelievable. During the last half century 2,726 automobile companies were started and prospered for a time, without exception. Of these, exactly 21 are in business today.

All of the preliminary discussion up to this point is by way of preparation for some very plain language addressed to a group of highly intelligent, absolutely honorable and currently successful businessmen who have been traveling a one-way street for so long that they may have been led to the conclusion that it will last forever. It won't. No such street ever has been constructed, nor will it ever be constructed.

**The Present Economic Outlook**

The building boom is slowing down. New starts are still going forward at a fairly rapid rate but the figure for July was 96,000, down 7,000 from June and 15,400 below April. This is 6% below last year's level, and privately financed homes—which are 95% of the total — were started at the lowest level in 13 months. Permits fell still more sharply—and starts are bound to continue downward unless permits pick up.

Future mortgage loans, insured or guaranteed, are being planned at a greatly reduced rate. FHA applications in July were for only 16,762 new dwelling units, about one-half of the total for May. July requests for VA appraisals of proposed homes covered only 20,752 units, which is 25% below June.

The disturbing thing about all this is that unless more homes, rather than less, can be sold with VA or FHA financing, total home building is bound to decline. More and more prospective home buyers are finding it difficult to make the down payments on conventional mortgages.

Home building employes nearly a million on-site workers, another million making building materials and equipment and perhaps another million in transportation. A slow-down here would not only affect the mortgage business but could have still more far-reaching effects.

The saturation point for home ownership is slowly approaching. New family formation, at 600,000, is only about one-half of 1948 and there is no likelihood of any substantial improvement much before 1957. More and more sales are being made to those who already have a home and want to sell it for another. The "used home" market could become a problem similar to, but not as large as, today's "used car" market.

**Distortion Between Lending and Saving**

Savings earmarked almost automatically in savings and loan institutions for placement in mortgages continue to increase, although at a slightly slower rate. The net increase in share capital for the savings and loan associations of the United States in July was $155 million against $144 million for the same month last year and the increase for the first seven months of 1953 was $2.090 billion as against $1.707 billion in 1952.

The comfortable relationship between lending and saving is being distorted in still another particular. The speculative aspects of the builders' activity were almost non-existent until recently. Today they are conspicuous, and construction loans are not only difficult to obtain but command very high rates because of their high risk. This situation, all by itself, has brought a good many tract developments to a halt.

Still another distortion is developing and constitutes one of those dangers which must be clearly anticipated in order to be three-quarters averted. The nation is overproduced in automobiles and other consumer durables. This overproduction has been made possible by very generous credit terms, of which a large segment of our population has taken advantage to the point where consumer debt now stands at substantially over $27 billion, whereas at the end of World War II it was $5.60 billion. Of this, nearly $21 billion is instalment debt largely representing automobile purchases, by comparison with 2 billion of instalment debt at the end of World War II.

Here we have the grinding of the gears which the manager must understand and against which he must make whatever preparation is possible. Our economic machinery seldom grinds to a complete halt, but it can slow down very rapidly indeed.

Most of this debt was incurred on the assumption that today's high wages, high employment and extensive overtime pay would continue indefinitely. In a nation which has attempted to supply the wants of today and tomorrow at the same time by going into debt, it is only a question of time before credit extension will be limited and the chances are better than even that the overproduction will come to a halt at about the same time, with the resulting reduction in overtime pay and the complete inability, of those individuals involved, to meet all of the responsibilities they have assumed.

The impact of all this on the savings of the nation is difficult to determine. It is almost paradoxical to assume that the savers and the borrowers are the same individuals and yet we have learned from information gathered by the responsible surveys of the Michigan State University Research Survey Center that, while 60% of today's disposable income is in the hands of the upper and lower middle income class families having incomes of between $3,000 and $7,500 per annum, this is the same group which owes about 65% of today's consumer debt.

From these statistics it might be possible to adduce the simple conclusion that the savings are available to pay the debts. However, there is no definite assurance that such would prove to be the case—and even if there were, the managers of the thrift institutions would find themselves squarely in the middle of the situation which would result, as withdrawals to pay the debts would be extremely heavy. In this connection it is interesting to note that today's total of consumer debt is greater than all the deposits in all of the mutual savings banks, is greater than all the share capital in all the savings and loan associations, is about 60% of the time deposits in the commercial banks and is about 30% of all three combined.

**Managers of Thrift Institutions Must Be on Alert**

The managers of the thrift institutions must prepare themselves against three possibilities, which may become probabilities at any time and may converge upon each other to such an extent that their impact on the entire economy would be very serious indeed. The first possibility is the problem of obtaining enough mortgage loans of satisfactory character to absorb savings earmarked for that purpose. As a corollary to that problem there is the problem of finding alternative investments which will produce enough income to support the present interest dividend policy. The second possibility is the reduction in the savings inflow to the point where advance commitments already made for mortgage investments might be difficult to fulfill. To a certain extent the first two possibilities might offset each other. The third possibility is the possibility of heavy withdrawals to pay debts or to cover living expenses as a result of production slowdowns and a decrease in take-home pay.

The finance industry has been characterized as the greatest middleman industry the world has ever known. The thrift institutions of the country are an integral and an important part of this middleman industry and the middleman can be beset by difficulties from either or both sides, so it behooves him to be more than ordinarily cautious when difficulties of any sort portend.

This is no counsel of despair. Our present Administration is committed to the accomplishment of a slowdown and the avoidance of a breakdown. There is enough intelligence in Washington at the present time to bring that about if an equal amount of intelligence is addressed by the businessmen of the country to the solution of their own problems. Any problem properly analyzed is about three-quarters answered just as any danger clearly anticipated is about three-quarters averted — and this statement was made earlier in the discussion.

We cannot very well escape a recession. It need not become a depression if we all exercise due discretion in the handling of our affairs for these next few months —or even years. That will constitute the coming test of management.

*Continued from page 30*

## Mutual Funds

**UNITED FUNDS**, Inc. reported that sales and net assets of the four funds comprising the investment trust group reached new highs during the first nine months of 1953.

Cameron K. Reed, President, said that total assets of the group were $101,496,723, compared with $86,390,947 a year earlier, and $97,796,029 at the start of the current year. The assets were represented by 10,566,245 shares, compared with 8,225,810 shares a year previous.

Sales of the four trusts were $18,597,969, compared with $17,-177,989 in the first nine months of 1952.

United Accumulative Fund shares showed the largest gain for the third quarter and the nine-month period, as compared with a year ago. For the three months ended Sept. 30, sales were $2,001,-926, against $1,847,532 a year earlier. The nine-month total sales amounted to $6,068,987, against $4,434,914.

United Continental Fund, which was started in December, 1952, had a sales total of $1,429,218 for the nine-month period.

United Income Fund shares, the largest of the four trusts, had assets of $66,672,237, equal to $11.56 a share on the outstanding shares, compared with $60,929,646, or $12.32 a share, a year before.

United Accumulative Fund shares had net assets of $18,198,-879, equal to $11.79 a share, against $11,625,135, or $12.41 a share, a year previous.

United Science Fund shares had net assets of $13,629,570, equal to $5.42 a share, against $13,836,166, or $5.90 a share, a year earlier.

United Continental Fund shares had net assets of $2,996,037, equal to $4.04 a share on the shares outstanding Sept. 30.

**LOOMIS, SAYLES & Co., Inc.**, managers of Loomis-Sayles Mutual Fund, Inc., report that as of Oct. 1, 1953, the Fund's assets were $31,010,685, as compared with assets of $27,655,989 on same date a year ago. Shares of Loomis-Sayles Mutual Fund outstanding on Oct. 1, 1953, were 847,339, as against 725,686 on Oct. 1, 1952, an increase of about 17%.

**RECORD SALES** of Wellington Fund shares for the September quarter and for the first nine months of 1953 were reported by A. J. Wilkins, Vice-President.

Gross sales in the nine-month period amounted to $40,244,000 —largest for any similar period in the Fund's 25-year history. They represented an increase of 9.5% over the sales of $36,633,000 in the like period last year.

For the September quarter, sales were $11,839,000, as compared with $11,330,000 in the corresponding period of 1952.

# Railroad Securities

## Estimated Carloadings for Final Quarter of 1953

As has been pointed out by a number of our leading industrialists in recent weeks fear of a recession will feed on itself. There has been so much talk of a down-trend in business that the fact of an existing recession, or a recession in the immediate future, is now fairly widely accepted. Not too long ago most railroad management and virtually all railroad security analysts were forecasting a well sustained volume of railroad traffic in the final quarter of the current year, with earnings for the period running about at the level of the last three months of 1952. Suddenly, and certainly without any tangible evidence that the near-term outlook has worsened, there has been a strong tendency to revise estimates of probable last quarter earnings of the railroads, collectively and individually, downward.

With this background, the report released by the National Association of Shippers Advisory Boards last week estimating carloadings of the nation's railroads for the last quarter of 1953 injects a refreshing note of sanity and unemotionalism. For the country as a whole the Association has estimated that railroad car loadings for the fourth quarter of 1953 will be 0.1% below actual loadings for the like interval a year ago. This is based on a sampling of prospects for the 32 principal commodity groups. In the past, the Association has, on the whole, proved to be fairly accurate in its forecasts and where it has erred it has for the most part erred in slightly underestimating the volume of traffic.

As usual, and logically, estimates for different sections of the country vary considerably. Of the 13 regional boards, there are five that anticipate a year-to-year gain in carloadings during the final quarter and eight that expect the traffic to be lower. The extremes run from an estimate of a 4% rise to an estimate of a decline of 5.4%.

In the following tabulation we have listed the various regions in a descending order of anticipated last quarter performance, based on estimates of the individual Advisory Boards.

| Region— | Estd. Change Last Quar. 1953 |
|---|---|
| Great Lakes | +4.0% |
| Allegheny | +2.7 |
| Atlantic States | +2.5 |
| Ohio Valley | +1.7 |
| Pacific Coast | +1.5 |
| Southeast | —0.5 |
| Trans-Missouri-Kansas | —0.9 |
| Southwest | —1.0 |
| New England | —2.0 |
| Northwest | —2.0 |
| Central Western | —3.5 |
| Pacific Northwest | —3.9 |
| Midwest | —5.4 |

The heavy industrial section of the East is considered to have the best relative prospects in the current quarter, with the largest percentage gain estimated for the Great Lakes Region. For the most part this is predicated on anticipated heavier loadings of "vehicle parts." In the Allegheny Region the largest gain is looked for in coal tonnage while the Atlantic States Board is estimating that iron and steel and other metals will move in larger volume this year than last and that paper products loadings will also be up moderately. The forecast of this Board is particularly interesting as for the country as a whole it is estimated that the important iron and steel category will decline.

The poorest outlook is for the Midwest Region, spearheaded by anticipated sizable declines in loadings of grain, coal, and gravel, sand and stone. The other two Regions at the bottom of the list also base their estimates to a considerable degree to a contraction in grain and other farm crops, aggravated in the Pacific Northwest by a potential decline in lumber and forest products which weigh particularly heavily in that area.

# Securities Now in Registration

★ INDICATES ADDITIONS SINCE PREVIOUS ISSUE
• ITEMS REVISED

**★ Alabama-Tennessee Natural Gas Co.**
Oct. 6 (letter of notification) 2,100 shares of common stock (par $1). **Price**—$11.75 per share. **Proceeds**—To B. F. Grizzle, the selling stockholder. **Underwriter**—Scott, Horner & Mason, Inc., Lynchburg, Va.

**Amalgamated Growth Industries, Inc.**
Sept. 28 (letter of notification) 149,999 shares of common stock (par 10 cents). **Price**—$2 per share. **Proceeds**—For acquisition of patents, etc., and for new equipment and working capital. **Office**—11 West 42nd St., New York City. **Underwriter**—R. A. Keppler & Co., Inc., New York, N. Y.

**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 Water Works Co., Inc. (10/28)**
Oct. 8 filed 225,000 shares of cumulative preferred stock (par $25). **Price**—To be supplied by amendment. **Proceeds**—From stock sale, together with funds received from private sale of $20,000,000 bonds, to be used to redeem $14,700,000 of collateral trust 3s due 1957 of this company and $5,241,900 of 6% and 7% preferred stocks of the system's three sub-holding companies, and the balance of approximately $5,000,000 to make additional investments in the common stock of its subsidiaries. **Underwriters**—W. C. Langley & Co. and The First Boston Corp.

**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.

**Anchor Post Products, Inc. (10/20)**
Sept. 30 (letter of notification) 32,953 shares of common stock (par $2) to be offered for subscription by 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. **Proceeds**—For working capital. **Office**—6500 Eastern Avenue, Baltimore, Md. **Underwriter**—None.

**• 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. Statement withdrawn.

**Arkansas Oil Ventures, Inc., Oklahoma City, Okla.**
Sept. 30 (letter of notification) 1,237,500 shares of common stock (par one cent) to be offered for subscription by stockholders. **Price**—Four cents per share. **Proceeds**—For drilling expenses. **Office**—703 Liberty Bank Bldg., Oklahoma City 2, Okla. **Underwriter**—None.

**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.

**★ Bapay Minerals, Inc. (Nev.)**
Oct. 8 (letter of notification) 112,000 shares of common stock (par 10 cents). **Price**—25 cents per share. **Proceeds**—To renovate property and operate mine and mill. **Office**—Tungstonia, White Pine County, Nev. **Underwriter**—None.

**• Beneficial Loan Corp.**
Sept. 29 filed 355,976 shares of common stock (par $10) being offered to common stockholders on the basis of one new share for each 10 shares held on Oct. 7, with rights to expire on Oct. 23. **Price**—$24 per share. **Proceeds**—For general corporate purposes. **Underwriter**—None.

**Bingham-Herbrand Corp., Toledo, Ohio**
Sept. 28 (letter of notification) $100,000 aggregate market value of common stock (par $1). **Price**—At market (estimated at $10.75 per share). **Proceeds**—To selling stockholder. **Underwriter**—Wm. J. Mericka & Co., Inc., Cleveland, O.



## NEW ISSUE CALENDAR

**October 19 (Monday)**
Nevada Natural Gas Pipe Line Co. ---- **Pfd. & Com.**
(The First California Co., Inc.) $1,031,250
New Mexico-San Juan Natural Gas Co. ---- **Common**
(Hunter Securities Corp.) $299,200
Wing Oil & Gas Corp. ---- **Common**
(Lewis Smithken Co.) $300,000

**October 20 (Tuesday)**
Anchor Post Products, Inc. ---- **Common**
(Offering to stockholders) $247,148

**October 21 (Wednesday)**
Ontario (Province of) ---- **Debentures**
(Harriman Ripley & Co., Inc., etc.) $50,000,000
Public Service Electric & Gas Co. ---- **Common**
Morgan Stanley & Co.; Drexel & Co. and Glore, Forgan & Co.) 800,000 shares

**October 23 (Friday)**
Hartford Electric Light Co. ---- **Common**
(Offering to stockholders—no underwriting) 105,500 shares

**October 26 (Monday)**
Seaboard Air Line RR. ---- **Equip. Trust Ctfs.**
(Bids noon EST) $4,350,000
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 11 a.m. EST) $30,000,000
San Jose Water Works ---- **Preferred**
(Dean Witter & Co.) $1,000,000

**October 28 (Wednesday)**
American Water Works Co., Inc. ---- **Preferred**
(W. C. Langley & Co. and The First Boston Corp.) $5,625,000
Niagara Mohawk Power Corp. ---- **Bonds**
(Bids to be invited) $40,000,000
Strategic Materials Corp. ---- **Common**
(Hamlin & Lunt and Allen & Co.) 198,500 shares

**November 5 (Thursday)**
American Fidelity & Casualty Co. ---- **Preferred**
(Geyer & Co.) $750,000

**November 17 (Tuesday)**
Worcester County Electric Co. ---- **Preferred**
(Bids noon EST) $7,500,000

**November 23 (Monday)**
Gulf States Utilities Co. ---- **Bonds**
(Bids to be invited) $10,000,000

**November 24 (Tuesday)**
Government Employees Corp. ---- **Debentures**
(Offering to stockholders, without underwriting) $500,000

**November 25 (Wednesday)**
Delaware Power & Light Co. ---- **Common**
(Bids to be invited) 232,520 shares

**December 1 (Tuesday)**
Monongahela Power Co. ---- **Bonds**
(Bids to be invited) $10,000,000
Tennessee Gas Transmission Co. ---- **Bonds**
(Bids to be invited) $25,000,000

**December 17 (Thursday)**
Erie RR. ---- **Equip. Trust Ctfs.**
(Bids to be invited) $5,400,000

**★ Brockway Glass Co., Inc.**
Oct. 9 (letter of notification) 5,500 shares of 5% cumulative preferred stock offered to present stockholders. **Price**—At par ($50 per share). **Proceeds**—For working capital. **Office** — Seventh Ave., Brockway, Pa. **Underwriter**—None.

**Burton Picture Productions, Inc.**
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.

**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.

**Carolina Telephone & Telegraph Co.**
Aug. 17 filed 33,320 shares of capital stock to be offered for subscription by stockholders 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.

**Cascade Natural Gas Corp., Seattle, Wash.**
Aug. 25 (letter of notification) 35,000 shares of common stock (no par). **Price**—$4.50 per share. **Proceeds**—For retirement of notes and certain stockholders' shares. **Office**—407 Securities Bldg., Seattle, Wash. **Underwriter**—None.

**• Central Illinois Light Co. (10/27)**
Oct. 7 filed 100,000 shares of common stock (no par), to be offered for subscription by common stockholders of record Oct. 27 on the basis of one new share for each nine shares then held (with an oversubscription privilege, subject to subscription rights of employees); rights to stockholders to expire on Nov. 13 and to employees on Nov. 10. **Price**—To be supplied by amendment. **Proceeds**—For repayment of bank loans and new construction. **Underwriter**—Union Securities Corp., New York.

**• Colton Chemical Co., Cleveland, Ohio**
Sept. 29 (letter of notification) 12,020 shares of common stock (par $1) being offered first to stockholders of record Oct. 12 at the rate of one new share for each 20 shares held (with an oversubscription privilege); rights will expire on Oct. 22. **Price**—$4.87½ per share. **Proceeds** For expansion. **Office**—1545 East 18th St., Cleveland 14, Ohio. **Underwriters**—H. L. Emerson & Co., Inc., Cunningham, Gunn & Carey, Inc. and Livingston, Williams & Co., Inc., all of Cleveland, Ohio.

**★ Consolidated Virginia Mining Co.**
Oct. 6 (letter of notification) 543,615 shares of common stock. **Price**—To be supplied by amendment.

**★ Cook Electric Co., Chicago, Ill.**
Oct. 7 (letter of notification) 10,041 shares of common stock (par $12.50) to be offered for subscription to common stockholders on the basis of one new share for each 11 shares held. **Price** — $28 per share. **Proceeds** — For working capital. **Underwriters**—Blunt Ellis & Simmons and Swift, Henke & Co., both of Chicago, Ill.

**★ Cosmo Oil Co., Denver, Colo.**
Oct. 7 (letter of notification) 300,000 shares of common stock. **Price**—At par ($1 per share). **Proceeds**—For drilling expenses and working capital. **Office** — 922 Equitable Bldg., Denver, Colo. **Underwriter**—E. I. Shelley Co., Denver, Colo.

**★ Cuban American Minerals Corp., Washington, D.C.**
Oct. 6 (letter of notification) 6,000 certificates of participation. **Price**—At par (in units of $50 each). **Proceeds** — For general corporate purposes. **Office** — 439 Wyatt Bldg., Washington, D. C. **Underwriter**—James T. De Witt & Co., Inc., Washington, D. C.

**Dade Reagents, Inc., Miami, Fla.**
Sept. 28 (letter of notification) $300,000 of 10-year debentures. **Price**—At par (in denominations of $1,000 each). **Proceeds**—To retire debts and for working capital. **Office**—1851 Delaware Parkway, Miami, Fla. **Underwriter**—Atwill & Co., Miami, Fla.

**DeKalb & Ogle Telephone Co., Sycamore, Ill.**
June 24 (letter of notification) 25,695 shares of common stock, to be offered for subscription by stockholdes at the rate of one new share for each four shares held. **Price**—At par ($10 per share). **Proceeds**—To construct telephone exchange. **Office**—112 West Elm St., Sycamore, Ill. **Underwriter**—None.

**★ Dohrn Transfer Co., Rock Island, Ill.**
Oct. 5 (letter of notification) $300,000 of first mortgage 5½% serial sinking fund bonds. **Price**—At par (in units of $1,000 and $500 each). **Proceeds**—For working capital. **Office**—208 18th St., Rock Island, Ill. **Underwriter**—Quail & Co., Davenport, Iowa.

**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.

**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.

**Fallon Gas Corp., Denver, Colo.**
June 25 (letter of notification) 3,616,000 shares of Class A common stock. **Price**—At par (five cents per share). **Proceeds**—For drilling wells. **Office**—528 E and C Bldg., Denver, Colo. **Underwriter**—E. I. Shelley Co., Denver, Colo.

**Farm Equipment Acceptance Corp., Peoria, Ill.**
Sept. 28 (letter of notification) 14,000 shares of common stock (par $10). **Price**—$12.75 per share. **Proceeds**—For working capital. **Office**—3500 North Adams St., Peoria, Ill. **Underwriter**—Carl McGlone & Co., Inc., Chicago, Ill.

**Federal Services Finance Corp.**
Sept. 28 (letter of notification) $300,000 of 5½% convertible subordinated debentures due Sept. 1, 1968 (each $100 principal amount is convertible into nine shares of common stock of no par value, valued at $12.50 per share). **Price**—At par (in multiples of $100 each). **Proceeds**—For working capital. **Office**—839-17th St., N. W., Washington, D. C. **Underwriter**—Mackall & Coe, Washington, D. C.

★ **Financial Industrial Fund, Inc., Denver, Colo.**
Oct. 9 filed 600,000 Financial Industrial Fund Shares; 15,000 Systematic Periodic Payment Investment Certificates ($18,000,000); and 2,500 Cumulative Full-Paid Investment Certificates ($2,500,000). **Proceeds** — For investment. **Underwriter**—None.

● **Florida Power Corp., St. Petersburg, Fla.**
Sept. 11 filed 211,416 shares of common stock (par $7.50) being offered for subscription by common stockholders at rate of one new share for each 10 shares held on Oct. 8; rights to expire on Oct. 26. **Price**—$24 per share. **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.**
Sept. 23 (letter of notification) 60,000 shares of common stock. **Price**—At par ($5 per share) being offered for subscription by common stockholders of record Oct. 9 on basis of one new share for each five shares held; rights to expire on Oct. 30. **Proceeds**—For working capital. **Underwriters** — Woodard-Elwood Co., Minneapolis, Minn. and Harold E. Wood & Co., St. Paul, Minn.

**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.

**General Shoe Corp., Nashville, Tenn.**
Oct. 2 filed 19,465 shares of $5 cumulative preference stock, series B (stated value $100 per share) and 139,742 shares of common stock (par $1) to be offered in exchange for shares of stock of Berland Shoe Stores, Inc. on the following basis: For each Berland common share 0.54253 shares of General Shoe common; and for each 4 6/11th shares of Berland preferred stock one share of series B preferred of General Shoe or for each 2.0227 shares of Berland prefered one share of General Shoe common stock. Offer, which will terminate on Dec. 7, is subject to acceptance of 80% of each class of stock.

**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. **Offering**—Postponed indefinitely.

**Gray Manufacturing Co., Hartford, Conn.**
May 1 filed 55,313 shares of capital stock (par $5) to be offered for subscription by stockholders on the basis of one new share for each four shares held. **Price**—To be supplied by amendment. **Proceeds**—For general corporate purposes. **Underwriter** — None. **Offering** — No definite plan adopted.

★ **Green Hills Telephone Corp., Breckenridge, Mo.**
Oct. 8 (letter of notification) 1,000 shares of common stock (par $5) and 700 shares of preferred stock (par $45). **Price**—At par. **Proceeds**—To construct and install dial system. **Office**—7th and Broadway, Breckenridge, Mo. **Underwriter**—None.

● **Hartford Electric Light Co. (10/23)**
Oct. 2 filed 105,500 shares of common stock (par $25) to be offered for subscription by stockholders of record Oct. 23 on the basis of one new share for each eight shares held; rights will expire on Nov. 10. **Price**—To be supplied by amendment. **Proceeds**—For construction program. **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.

**Hedges Diesel, Inc. (N. J.)**
Aug. 24 (letter of notification) 10,000 shares of Class A common stock and 20,000 shares of Class B common stock. **Price**—At par ($10 per share). **Proceeds**—To erect plant and for new equipment, and working capital. **Office**—Marlton, N. J. **Underwriters**—None.

**Hunter Creek Mining Co., Wallace, Idaho**
June 2 (letter of notification) 160,000 shares of common stock. **Price**—25 cents per share. **Proceeds**—For operating capital. **Office** — 509 Bank St., Wallace, Idaho. **Underwriter**—Mine Financing, Inc., Spokane, Wash.

**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.

**Israel Enterprises, Inc., New York**
Oct. 1 filed 18,800 shares of common stock. **Price**—At par ($100 per share). **Proceeds**—For investment in existing industrial enterprises in Israel. **Underwriter**—None.

**K-O-T Oil Corp., Ardmore, Okla.**
Sept. 28 (letter of notification) 299,500 shares of common stock (par one cent). **Pricee**—$1 per share. **Proceeds**—To complete wells. **Office**—504 Gilbert Bldg., Ardmore, Okla. **Underwriter**—Petroluem Finance Corp., Oklahoma City, Okla.

**Kansas Gas & Electric Co.**
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.**
Sept. 11 filed $10,000,000 of 3⅝% first mortgage bonds due Oct. 1, 1983. **Proceeds**—To reduce bank loans and for construction program. **Underwriters**—Halsey, Stuart & Co. Inc., who were awarded the issue on Oct. 14 on a bid of 101.479. Reoffering is expected to be made at 102.25 to yield 3.51%.

**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 being offered for subscription by common stockholders of record Oct. 14 at the rate of one new share for each seven shares held; rights to expire on Oct. 29. The remaining 100,000 shares are being offered to employees. **Price**—$16 per share. **Proceeds**—To repay bank loans. **Underwriters**—Blyth & Co., Inc., The First Boston Corp. and W. C. Langley & Co., all of New York.

★ **Management Funds, Inc.**
Oct. 7 (letter of notification) $100,000 of 7% three-year registered bonds. **Price**—At par (in units of $500 each). **Proceeds**—For working capital. **Business**—Sales finance company. **Office**—26 Journal Square, Jersey City 6, N. J. **Underwriter**—None.

**McCarthy (Glenn), Inc.**
June 12, 1952 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. **Undertaker**—B. V. Christie & Co., Houston, Texas. **Dealer Relations Representative**—George A. Searight, 115 Broadway, New York 6, N. Y. Telephone BArclay 7-8448. **Offering**—date indefinite.

★ **McDonald (H. A.) Creamery Co., Detroit, Mich.**
Oct. 9 (letter of notification) $300,000 of 6% callable debentures. **Price** — At par (in units of $100, $500 and $1,000 each). **Proceeds** — To redeem outstanding debentures and for working capital. **Office** — 9700 Oakland Ave., Detroit 11, Mich. **Underwriter**—None.

★ **McKenzie-Thomas, Inc., Denver, Colo.**
Oct. 8 (letter of notification) 56,000 shares of 6% cumulative preferred stock and 14,000 shares of common stock. **Price**—At par ($1 per share). **Proceeds**—For inventory and working capital. **Office**—1210 First National Bank Bldg., Denver, Colo. **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.

★ **Midwest Uranium Co., Wichita, Kan.**
Oct. 9 (letter of notification) 2,200,000 shares of common stock (par one cent). **Price**—The first 1,400,000 shares at 10 cents each and the remaining 800,000 shares at 20 cents each. **Proceeds**—For mining and drilling. **Office**—620 Empire Bldg., Denver 2, Colo. **Underwriter**—Alexander P. Preston.

**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). Of the class B shares, 172,894 will have been sold the moment the offering is approved and the remaining 512,922 will be sold following approval. **Price**—$1 per share. **Proceeds**—For oil and gas leases and to repay notes. **Underwriter**—None.

★ **Morris Paper Mills, Chicago, Ill.**
Oct. 7 (letter of notification) 1,600 shares of common stock (par $10). **Price**—At market (estimated at about $10 per share). **Proceeds**—To A. G. Ballenger, the selling stockholder. **Office**—135 So. LaSalle St., Chicago 3, Ill. **Underwriter**—Hallgarten & Co., Chicago, Ill.

**Motion Picture Laboratories, Inc.**
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.

● **Nevada Natural Gas Pipe Line Co. (10/19-20)**
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 Gas & Electric Ass'n**
Sept. 2 filed 200,096 common shares of beneficial interest (par $8) being 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. **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. (10/19-20)**
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.

★ **Niagara-Mohawk Power Corp. (10/28)**
Oct. 7 filed $40,000,000 general mortgage bonds due Oct. 1, 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 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.

★ **Northwest Telephone Co., Redmond, Ore.**
Oct. 8 (letter of notification) 10,000 shares of common stock (par $5), of which 6,000 shares are to be offered by the company and 4,000 shares by three selling stockholders. **Price**—$15.75 per share. **Proceeds**—For construction. **Office**—313 Sixth St., Redmond, Ore. **Underwriters**—Camp & Co., Portland, Ore.; Wm. P. Harper & Son & Co., Seattle, Wash.; and others.

**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.

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★ **Ontario (Province of) (10/21)**
Oct. 9 filed $50,000,000 of 25-year debentures, due Nov. 1, 1978. **Price**—To be supplied by amendment. **Proceeds**—To be advanced to the Hydro-Electric Power Commission of Ontario to be used for capital expenditures. **Underwriters** — Harriman Ripley & Co., Inc.; Wood, Gundy & Co., Inc.; Smith, Barney & Co.; The First Boston Corp.; A. E. Ames & Co., Inc.; The Dominion Securities Corp., and McLeod, Young & Weir, Inc.

**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.)

**Orradio Industries, Inc., Opelika, Ala.**
Sept. 28 (letter of notification) 149,500 shares of common stock (par 25 cents). **Price**—$2 per share. **Proceeds**—For working capital. **Office**—Marvyn Road, Opelika, Ala. **Underwriter**—S. D. Fuller & Co., New York.

**Overland Oil, Inc., Denver, Colo.**
June 10 filed 600,000 shares of common stock (par 10¢) to be offered for subscription by stockholders (except the original incorporators) at rate of one new share for each two shares held. **Price**—40 cents per share. **Proceeds**—For working capital. **Underwriter**—None.

**Pedlow-Nease Chemical Co., Inc.**
July 9 (letter of notification) 2,000 shares of capital stock (no par) to be offered to stockholders of record June 29 at rate of one new share for each five shares held. **Price**—$10 per share. **Proceeds**—For working capital. **Office**—Lock Haven, Pa. **Underwriter**—None.

**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.

★ **Professional Acceptance Corp., Amarillo, Tex.**
Oct. 7 (letter of notification) 300 shares of series B common stock (par $50); 300 shares of series A non-cumulative preferred stock (par $50); and 300 shares of series B cumulative preferred stock (par $50). **Price**—At par. **Proceeds**—For operating costs. **Office**—816 Harrison St., Amarillo, Tex. **Underwriter**—None.

**Prugh Petroleum Co., Tulsa, Okla.**
Aug. 28 (letter of notification) 35,000 shares of common stock (par $5). **Price**—$8.50 per share. **Proceeds**—To pay loans. **Office**—907 Kennedy Bldg., Tulsa, Okla. **Underwriter**—None.

● **Public Service Electric & Gas Co. (10/21)**
Sept. 30 filed 800,000 shares of common stock (no par). **Price**—To be supplied by amendment. **Proceeds**—To repay bank loans and for additions and improvements to property. **Underwriters**—Morgan Stanley & Co., Drexel & Co. and Glore, Forgan & Co.

**Public Service Electric & Gas Co. (10/27)**
Sept. 30 filed $30,000,000 of first and refunding mortgage bonds due Oct. 1, 1983. **Proceeds**—To repay bank loans and for new construction. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co. and Lehman Brothers (jointly); Morgan Standey & Co. and Drexel & Co. (jointly); The First Boston Corp. **Bids**—Expected to be received up to 11 a.m. (EST) on Oct. 27 at 80 Park Place, Newark, N. J.

★ **Reliance Electric & Egineering Co.**
Oct. 6 (letter of notification) $300,000 aggregate value of common stock to be offered through options to employees pursuant to "Employees Stock Option Plan."

**Rockland Light & Power Co.**
Sept. 17 filed 210,721 shares of common stock (par $10) being 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**—$10.20 per share. **Proceeds**—To repay bank loans. **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane, New York.

● **Rockland Light & Power Co.**
Sept. 17 filed $8,000,000 first mortgage bonds, series E, due 1983. **Proceeds**—To retire bank loans and for new construction. **Underwriters**—Equitable Securities Corp. who were awarded the issue on a bid of 102.079 for 3¾s. Reoffering expected to be made at 102.738.

**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.

**San Jose Water Works (Calif.) (10/27)**
Oct. 5 filed 40,000 shares of cumulative preferred stock (par $25—convertible into common stock from Jan. 1, 1954). **Price**—To be supplied by amendment. **Proceeds**—To repay bank loans and for new construction. **Underwriter**—Dean Witter & Co., San Francisco, Calif.

**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**—Indefintely postponed.

**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.

**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.

★ **South Atlantic Gas Co., Savannah, Ga.**
Oct. 7 (letter of notification) 25,000 shares of common stock (par $5). **Price**—$12 per share. **Proceeds**—For plant additions. **Office**—620 East Broughton St., Savannah, Ga. **Underwriters** — Johnson, Lane, Space & Co., Inc., and French & Crawford, Inc., both of Atlanta, Ga.; Grimm & Co., New York, and others.

● **Southern New England Telephone Co.**
Sept. 15 filed 400,000 shares of capital stock being 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.

**Sta-Tex Oil Co.**
Oct. 2 (letter of notification) 300,000 shares of common stock (par five cents). **Price**—$1 per share. **Proceeds**—For drilling costs. **Underwriter**—Arthur R. Gilman, 20 Broad Street, New York City.

**State Fire & Casualty Co., Miami, Fla.**
Sept. 10 (letter of notification) 80,000 shares of class B common stock (par $1). **Price**—$3.75 per share. **Office**—8268 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.

● **Strategic Materials Corp., Buffalo, N. Y. (10/28)**
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.

**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 Merchants & Manufacturers, Inc.**
Oct. 7 filed 574,321 shares of common stock (par $1). **Price**—At the market (either on the New York Stock Exchange or through secondary distributions). **Proceeds**—To a group of selling stockholders who will receive the said shares in exchange for outstanding preferred and common stock of A. D. Juilliard & Co., Inc., on the basis of 6½ shares of United Merchants stock for each Juilliard common or preferred share. **Underwriter** — None.

**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 Rayon Manufacturing Corp. (Netherlands)**
Oct. 9 filed "A. K. U." American depositary receipts for 200,000 American shares representing 10,000 ordinary shares of A. K. U. at the rate of 20 American shares for each ordinary share of Hfl. 1,000 par value. **Price**—To be supplied by amendment. **Proceeds**—To selling stockholders, who purchased the ordinary shares from the company, the proceeds to be used by it for capital additions to plants and facilities. **Underwriter** — Lazard Freres & Co., 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 offer expires on Nov. 13. Statement became effective Oct. 13.

**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.

★ **Valley View Country Club, Phoenix, Ariz.**
Sept. 30 (letter of notification) 374 shares of common stock. **Price**—At par ($800 per share). **Proceeds**—To purchase land for golf course. **Address**—P. O. Box 2469, Phoenix, Ariz. **Underwriter**—Joe J. Peterno.

**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.

★ **Welchel Mines Co., Caldwell, Idaho**
Oct. 6 (letter of notification) 3,000,000 shares of common stock. **Price**—At par (10 cents per share). **Proceeds**—For working capital. **Address**—P. O. Box 7, Caldwell, Idaho. **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**
Sept. 17 filed 128,316 shares of common stock (no par), of which 122,316 shares are being offered for subscription by common stockholders at rate of one new share for each eight shares held on Oct. 5. The remaining 6,000 shares are to be sold to employees. Subscription rights expire on Oct. 21. **Price**—$29.60 per share. **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.

★ **Wing Oil & Gas Corp., New York (10/19)**
Oct. 5 (letter of notification) 750,000 shares of common stock (par 10 cents). **Price**—40 cents per share. **Proceeds**—For drilling expenses and working capital. **Office**—42 Broadway, New York, N. Y. **Underwriter**—Lewis Smithken Co., New York.

★ **Worcester County Electric Co. (11/17)**
Oct. 12 filed 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 noon (EST) on Nov. 17.

# Prospective Offerings

**American Fidelity & Casualty Co. (11/5)**
Oct. 7 it was stated registration is planned for about Oct. 16 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 Nov. 5; rights to expire about Nov. 20. 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.**
Oct. 14 stockholders authorized the directors to issue up to $625,000,000 in convertible debentures. **Price**—Expected at par. **Proceeds**—For advances to subsidiary and associated companies. **Underwriter**—None. **Offering**—To be made to stockholders.

**Atlantic City Electric Co.**
Oct. 5 B. L. England, President, announced that the company plans to issue and sell early next year about $4,000,000 of new bonds and make an offering to stockholders on a 1-for-10 basis of sufficient common stock to raise an additional estimated $3,000,000. **Proceeds**—For construction program. **Underwriters**—For common stock may be Union Securities Corp. and Smith, Barney & Co. Previous bond issue was placed privately.

**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.

**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 Maine Power Co.**
Oct. 7 it was reported company plans sale during the first quarter of 1954 of $10,000,000 common stock 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 Power & Light Co.**
March 2 it was reported company may issue and sell 60,000 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.

**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. For bonds, underwriters may be determined by competitive bidding. Probable bidders for $10,000,000 of bonds: Halsey, Stuart & Co. Inc.; White, Weld & Co.; Salomon Bros. & Hutzler; Dillon, Read & Co.; Union Securities Corp. and Glore, Forgan & Co. (jointly); Lehman Brothers; Lee Higginson Corp. and Carl M. Loeb, Rhoades & Co. (jointly).

**★ Delaware Power & Light Co.**
Oct. 5 it was announced company plans to issue and sell in 1954 about $10,000,000 of first mortgage and collateral trust bonds. **Proceeds**—For construction program. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp. and Blyth & Co., Inc. (jointly); White, Weld & Co. and Shields & Co. (jointly); Union Securities Corp.; Lehman Brothers; Morgan Stanley & Co.; Kuhn, Loeb & Co. and Salomon Bros. & Hutzler (jointly); W. C. Langley & Co.

**● Delaware Power & Light Co. (11/25)**
Oct. 5 it was announced this company plans offering to common stockholders of record Nov. 25 of 232,520 additional shares of common stock on a one-for-seven basis. Rights will expire about Dec. 15. Employees will receive rights to subscribe for up to 150 shares each. **Price**—To be named by company on Nov. 23. **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 about Oct. 28. **Bids**—Tentatively expected to be received on Nov. 25.

**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.

**Dixie Cup Corp**
Oct. 2 it was announced stockholders will vote Nov. 3 on authorizing the creation of a new issue of 200,000 shares of preferred stock (par $50), of which approximately 150,000 shares as a convertible series will be offered to common stockholders on a one-for-five basis for a 15-day period. **Proceeds**—For expansion. **Underwriters**—Glore, Forgan & Co.; Hornblower & Weeks.

**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 near future.

**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).

**Erie RR. (12/17)**
Oct. 2 it was reported company plans to issue and sell $5,400,000 equipment trust certificates. **Bids**—Expected to be received on Dec. 17. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Kidder, Peabody & Co.; Blair, Rollins & Co. Inc.

**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 borrowings 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.**
Oct. 6 stockholderss authorized issuance and sale to stockholders of 39,000 additional shares of capital stock (par $10) on the basis of one new share for each 10 shares held on Oct. 6; rights to expire on Oct. 23. **Price**—$43 per share. **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.

**★ Gulf States Utilities Co. (11/23)**
Oct. 7, Roy S. Nelson, President, announced that the company expects to sell a new issue of $10,000,000 first mortgage bonds. **Proceeds**—To repay bank loans and for new construction. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler and Union Securities Corp. (jointly); Stone & Webster Securities Corp.; Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly); Lehman Brothers; Kuhn, Loeb & Co. and A. C. Allyn & Co., Inc. (jointly); Lee Higginson Corp. and Carl M. Loeb, Rhoades & Co. (jointly). **Bids**—Tentatively scheduled to be received on Nov. 23.

**Houston Lighting & Power Co.**
Sept. 25 it was reported company plans some new financing to provide funds for its construction program. Bidders for about $25,000,000 of its bonds may include Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co.; Union Securities Corp.;; Lehman Brothers; Smith, Barney & Co.; Kidder, Peabody & Co.; Equitable Securities Corp.

**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.**
Oct. 14 it was announced that company this November plans to offer an issue of $25,000,000 of first mtge. bonds (this is in addition to 785,648 shares of com. stock now being offered 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**—$[illegible] per share. **Prcoeeds** — To help finance a new bottling plant. **Underwriter**—None.

**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[illegible] 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.

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**● Narragansett Electric Co.**
Oct. 8 company applied to Rhode Island P. U. Commission for authority to issue 150,000 shares of preferred stock (par $50). **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).

**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.

**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 Northwest Pipeline Corp.**
Jan 29 company received FPC permission to file a third substitute application proposing to construct a 1,466-mile transmission line extending from the San Juan Basin in New Mexico and Colorado to market areas in the Pacific Northwest. Estimated overall capital cost of the project is $186,000,000, including $2,000,000 for working capital. Financing is expected to consist of first mortgage pipe line bonds and preferred and common stocks. **Underwriters**—White, Weld & Co. and Kidder, Peabody & Co., both of New York, and Dominion Securities Corp. Ltd., Toronto, Canada.

**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.

**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 Co. of Colorado**
Oct. 13 it was reported company is planning to float an issue of $15,000,000 first mortgage bonds, due 1984, early next year. **Proceeds**—For financing, in part, a $17,000,000 electric generating plant to be constructed in Denver, Colo. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co.; The First Boston Corp.; Harris, Hall & Co. Inc.; Harriman Ripley & Co., Inc. and Union Securities Corp. (jointly); Lehman Brothers; Kidder, Peabody & Co.; Blyth & Co., Inc. and Smith, Barney & Co. (jointly).

**Riddle Airlines, Inc., New York**
Aug. 11 it was announced company plans future public financing to secure cargo transport aircraft.

**★ Seaboard Air Line RR. (10/26)**
Bids will be received at the office of Willkie, Owen, Farr, Gallagher & Walton, 15 Broad St., New York 5, N. Y., up to noon (EST) on Oct. 26 for the purchase from the company of $4,350,000 equipment trust certificates, series N, to be dated Nov. 15, 1953, and to mature serially in 30 equal semi-annual instalments. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Kidder, Peabody & 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.

**South Georgia Natural Gas Co.**
Sept. 28 it was reported that an application is pending before the Federal Power Commission for authority to build a 335-mile pipe line in Alabama, Georgia and Florida at an estimated cost of $8,141,518. **Underwriter**—Shields & Co., New York.

**Southwestern Development Co.**
See Westpan Hydrocarbon Co. below.

**Southwestern Gas & Electric Co.**
April 29 it was announced company later this year will issue and sell 50,000 shares of cumulative preferred stock (par $100). **Underwriters** — May be determined by competitive bidding. Probable bidders, White Weld & Co. and Kidder, Peabody & Co. (jointyl); W. C. Langley & Co. and Paine, Webber, Jackson & Curtis (jointly); Harriman, Ripley & Co. Inc.; Merrill Lynch, Pierce, Fenner & Beane and Union Securities Corp. (jointly); Lehman Brothers; Blyth & Co. Inc., and Stone & Webster Securities Corp. (jointly).

**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.

**★ Storer Broadcasting Co., Birmingham, Mich.**
Oct. 8 it was reported company may do some financing, with registration later this month. Registration filed May 19, 1952, covering 215,000 shares of common stock (par $1) was later withdrawn. All but 15,000 shares of these were then outstanding. **Underwriters** — Reynolds & Co., New York, and Oscar E. Dooly & Co., Miami, Fla.

**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.

**★ Tennessee Gas Transmission Co. (12/1)**
Oct. 6 it was reported company plans to issue and sell $25,000,000 of first mortgage pipe line bonds due 1973. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Stone & Webster Securities Corp. & White, Weld & Co. (jointly). **Bids**—Tentatively expected to be received about Dec. 1.

**Transcontinental Gas Pipe Line Corp.**
May 4 it was reported company may issue some convertible preferred stock before the Fall. **Underwriters**—Probably White, Weld & Co. and Stone & Webster Securities Corp., both of New York.

**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.**
Oct. 14 it was announced that company now plans to issue $29,000,000 in 1-to-5½-year serial notes; $71,000,000 in 20-year, first mortgage bonds; and $24,440,000 in subordinated long-term debentures and 4,100,000 shares of common stock to be sold to the public. **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.

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# National Business Conditions and California

outlays for such are running at about 7% ahead of 1952.

If the expenditures for goods and services by the government and for plant and equipment by industry and private persons should drop as much as 4% in the year ahead, this could be offset by an increase in expenditures by consumers of but 2½%. Is this likely to occur? In my opinion, we are very apt to experience an increase in consumers' expenditures that will come close to equaling, if not exceeding, the decrease by other groups. There are several reasons why I believe this might be so. Incomes in this country are still rising. Employment is currently higher than it has ever been and the demand for labor remains very strong. If unemployment should appear in some areas, those involved are very apt to find jobs in other locations. Americans are becoming more and more a single class market. Out of the 47 million family units in this country, 35% of them have disposable incomes somewhere between $4,000 and $7,500. This is a 44% increase, representing a tremendous expansion of our great middle class market since 1947. "Fortune", in a series of articles on our changing American market, estimates that during this year, 42% of our total income will go to consumers in this category. Because these are persons who spend the largest portion of their income, a high level of buying will be maintained. This buying is at the expense of savings and is beneficial to our economy in a period similar to the one which we are in. Since the demand for savings for capital expansion is declining, it is only through enlarged consumption expenditures that we can continue to maintain full employment.

Although there is much more that should be said about the national economy, it seems to me that all of this adds up to a downward adjustment of minor proportions in the months ahead. We know the Administration is extremely anxious to prevent any major setback and it is possible action may be taken in time to prevent even the slight downturn I anticipate. It should be remembered that cyclical variations in our economy are a healthful phenomenon as long as they do not result in large scale unemployment.

### California Economic Trends

This picture of national business conditions gives us a framework within which we might examine the California situation. Of course, we do not have figures entirely comparable to those available for study of the total economy but it is possible to investigate the same areas of activity with the thought of determining basic trends.

Since Korea, California industries have expanded their physical facilities at a rapid rate. One of the best measures we have of the amount of investment that has been poured into increased production facilities is the amount of tax amortization certificates granted by the Defense Production Administration. These certificates represent scheduled expenditures for new plants, plant expansions, and new equipment. Our statistics are not complete but they do cover the period from October, 1950, to April, 1953, and they do represent practically all construction for industrial purposes. During this period, $26 billion worth of certificates were issued by D. P. A. of which California's share was 4.5% or $1.2 billion. Since our state received 9% of the total number of certificates, it is obvious that on the average the size of the certificates issued to California firms was below those issued to the rest of the nation.

Time does not permit us to discuss all the significant factors relating to investments in plant and equipment. However, because these investments are so vital to the future growth of California, a few generalizations might be in order.

By far the largest share of investments in plant and equipment have gone into the manufacturing industries. Every industry has experienced some growth but four—primary metals, transportation equipment, petroleum and chemicals—accounted for 81% or $726 million out of a total of $895 million going to the manufacturing group. Of the non-manufacturing group, expansion of our utilities accounted for $173 million or 65% of the value of all certificates issued for non-manufacturing purposes.

It is possible to break the available statistics down by geographical areas. When this is done, southern California, as defined by the northern limits of Kern, Inyo, and Santa Barbara counties, accounted for 54% of the total of all investments, while northern California received the remaining 47%. A still further breakdown of these data enables us to place our finger upon soft spots within California—areas that have not kept pace with the industrial growth of the entire state. San Diego, Fresno, Stockton, and San Jose are four areas that have undergone a very modest expansion program. As is well known, the present plans for industrial expansion around Fresno will raise that area to an exceptionally high level of investment expenditures in the coming years.

The total investments as measured by D. P. A. certificates have definitely strengthened California's economic base. However, it has not increased our diversification. The investments have gone into the same industries that were prominent before Korea. Also a large segment of these investments, over 38%, has gone into such industries as the utilities, petroleum, and chemicals, that support a low number of employed persons per thousand dollars of investment. Industries with a high employment investment ratio received but a small portion of the total certificates.

The data indicate that California's share of the manufacturing certificates is somewhere between 5% and 6% of the total issued in the United States. This is below California's share of total investment in manufacturing facilities as well as below our share of the total value added by manufacturing reported in the 1951 Annual Survey of Manufactures.

All of this adds up to the fact that we still have a long ways to go if we are to raise California's portion of the total manufacturing industry of this country. The defense program has not resulted in a westward movement of the nation's manufacturing center. It has strengthened our economy by increasing the absolute size of our plant and equipment but relatively, our physical facilities are in about the same proportion they were prior to Korea. One of the most significant developments has been the expansion of our steel-making equipment. In my opinion, this expansion foretells further development of subsidiary industries and, thus, still greater job opportunities. During this coming year, there will be areas that will experience a decrease in capital expenditures but California as a whole is very apt to experience a total investment figure by private industry every bit as great as it has during the past 12 months. One reason for this forecast is the desire of national concerns to capture a larger portion of the California market. In order to accomplish this, many of them will construct plants nearer this market. Of course, all firms cannot hope to gain a greater share of the market and, as a result, some of the outlays may prove unprofitable.

It is well known that California has led the nation in home construction every year of the post-war period. Last year, the state constructed about 170,000 dwelling units, amounting to nearly 15% of the U. S. total. Although in the first seven months of this year residential construction in the state's two major centers of population was about 26% above the same period a year ago, the state as a whole is estimated to be running about 20% ahead.

A decrease in home construction for the nation as a whole does not necessarily foretell the same degree of experience for California. Our state continues to grow somewhere between 35,000 and 40,000 persons each month. The 70% of these who came from other areas will need housing and, therefore, serve as a significant bolstering factor to our real estate market. Because building permits for the state seem to be running ahead of sales, some decrease in construction can be anticipated. Of course, a change in down payment requirements or any extension in maturities would have the same effect on our western market as it would on the national.

Public construction in California has been increasing steadily since 1946, and I see no reason why a decline should be expected in the year ahead. We are still far behind in our programs for better highways, schools, hospitals, public buildings, sewers, and the like. Increases in this area will partially offset any declines in construction that might be experienced in the private sectors.

The forces that we must watch and study if we are to better understand our California market are numerous. Today, I would like to discuss three, population, employment, and income, all of which have a significant bearing upon the demand for goods and services by Californians.

**Population Growth**

The importance of the phenomenal growth in population here in California cannot be overemphasized. This is the dynamic aspect of our economy and has confused the experts all during the post-war period. This year the birth-rate will hit an all time high but this accounts for but 30% of our population increase. If we continue to add population at the present rate, we will have nearly 15 million people by 1960, a date nearer than the end of World War II.

As our population base becomes larger, the demand for goods will be permanently increased and new industries will be developed as well as new branches of old ones created. Here, this increasing population is not pouring into a single big city. Instead, throughout the state, we are witnessing a nearly fantastic growth in suburban living. This living is responsible for new markets that stimulate the consumer to spend his income for products quite different than those he needed when he resided in the east. Suburbanization stimulates the demand for casual clothes, processed foods, garden furniture, barbecues, a second car, more roads, schools, hospitals, public buildings, air conditioners, home freezers, and any number of other products. This demand is growing and is rapidly becoming a "mass market" for any product that fits into suburban life.

**Employment in California**

California's employment boom shows no signs of a let-up. The growth in employment over the past 13 years has more than kept pace with the increase in population. Our population has jumped 71% since 1940 while total employment has increased 86%. In other words, back in 1940 every job supported 2.6 people whereas today every job supports but 2.4 persons. In 1940, business activity in this state furnished 5.5% of the total jobs available in the United States. Today, our activity accounts for 7.8% of the nation's total employment.

Farm employment in California has continued to increase since 1940 in marked contrast to the national downtrend. Jobs in this category increased by 43% from 1940 to 1953 while in the remainder of the nation, farm employment dropped 36%. In spite of the increase in agricultural employment, farming has become relatively less important as a job source as other industries have expanded.

The majority of new jobs that have been created in California over the past 13 years have been cconcentrated in construction, manufacturing, and government. Manufacturing has supplied the greatest number of jobs, expanding from 393,000 in 1940 to over 1 million in 1953. Total employment by state, local and federal government has increased 145% during the same period. Federal employment alone has gone up nearly 400%—to the point where there are now more employees dependent upon the United States Government for their jobs in California than in the Washington, D.C. area. During the past year, the increase in governmental employees has been entirely at the state and local levels. Employment by the Federal Government has declined more than 4,000 since a year ago. If the Administration has its way, we can expect a still further decline in the months ahead.

We cannot examine all of the subdivisions that fall under the manufacturing category. However, all of the 18 major manufacturing industries have experienced an increase in employment since 1940. Since that time, the furniture industry has been the slowest to expand (an increase of but 49%) while the electrical machines and equipment industry has grown the fastest (an increase of 641%). Recent increases in employment in the food processing, primary metal, machines, motor vehicles and the aircraft and parts industries testify to the fact that important changes in the structure of the California economy are continuously under way. Manufacturing, as measured by employment, is increasing its relative importance in our total structure while the trades, finance and services are declining. Each change is bringing us closer to the employment pattern of the entire United States. As California grows we can expect this tendency to continue. Manufacturing will become still more important as a source of jobs while the trade and service industries may decline in relative importance.

I have failed to mention the fact that approximately 20% of the total manufacturing employment in this state is found in the aircraft and parts industry. Many people point to this as a potential sore spot, one that we have to be on the alert to combat. This is of no great concern to me. I believe the aircraft industry is an integrated part of the American way of life—as integrated as the automobile. We will have our difficulties from time to time the same as the people of Detroit will continue to experience theirs: however, the aircraft industry represents a source of great strength for our future economy. The know-how being nurtured in that industry will place us in a competitive advantage when the next phase of the development of transportation is unfolded.

Since I am optimistic about the future of California's employment, I cannot help but conclude incomes in this state are not on the verge of a sudden downturn. Wage rates are increasing and average earnings are close to all-time highs. Farmers in California are having the same experience as they are in the rest of the United States. Their incomes are off about 9% or 10% and the outlook for the immediate future is not too encouraging.

Per capita incomes in California have been consistently above the average for the rest of the United States and this is reflected in higher per capita retail sales. Throughout the country there has been a tendency to narrow the gap between the high and the low per capita income states, but California remains 21% above the U. S. average.

Californians are spending their incomes. It is estimated that total retail sales are running about 11% ahead of last year. Some businesses are enjoying very high sales while others are experiencing severe competition and cannot look forward to any immediate improvement. Here, as elsewhere, certain industries have overexpanded but as long as we maintain a scarce labor supply, wages will remain relatively high and a high demand for consumer products will continue.

At the present, I cannot see anything on the horizon that foretells a downturn of business activity of significant proportions. I doubt that the next 12 months will see a higher level of sales, employment or income than has existed over the past 12, but it must be recognized that an increase over the previous year cannot always remain the measuring stick for a high level of business activity. Although California could not hope to extricate itself from a depression-infected national economy, we will continue to move in the direction of better balance and integration. New technological developments in all fields of our industrial and social structure can, and will provide, ample opportunity for future individual as well as community growth and expansion. Advances in such industries as the petroleum, chemical, electronic equipment, bio-chemical, atomic energy equipment and air transportation equipment will, along with our growing population, bring increased business activity to California.

# Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—

"DECISION . . . ACTION"

The same being an hysterical drama in one act of a possibly apocryphal world-shaking announcement.

*[Any similarities between the characters who participate in this drama and any other characters alive or dead, or who maybe ought to drop dead, is just rank coincidence.]*

*[The scene is of men, all well-dressed, alert-looking, about or below middle age, seated around a luncheon table in an exclusive club in an imaginary great world capital. It is the capital of a wealthy Republic which is pouring out vast treasures and building mighty military machines to save the world from conquest by the barbarians of a treacherous Blue State.]*

*[Those who are thus convened at luncheon are members of a semi-secret "One Hundred Billion Club." With one exception, the members are (a) key government officials below the Cabinet level, (b) whose minimum pay is 12,000 pesos per annum, (c) who have served their government sufficiently long to see it spend 100 billion pesos while they were employed (hence the name), and finally (d) who subscribe to the following mottoes:*

*P for patriotic to one world.*
*I for indispensable to government.*
*S for state dedicated.*
*S for servants of progress.*
*A for anonymous always.*
*N for never paid sufficiently.*
*T for tenacious for world welfare.*
*S for sure always of their secret goals.*

*[In irreverent chatter among the sophisticated of the capital, they are commonly referred to merely as "PA's."]*

*[The time is approximately the middle of August, 1953.]*

*[Arturo Flamingo is the only member at the Cabinet level. He is Minister of Defense Production. He opens the discussion.]*

**Flamingo**—Gentlemen, we are losing ground. If we are going to promote the world state with welfare for all, we must at least keep our own state province, as it were, in line. We have lost controls over the economy, in spite of the (if unplanned by us) best maneuverings Burney could work on Homer. Now even Prime Minister Roosenhauer is bragging about our free economy and our free markets and all that rot. However, economic controls are not everything. There is developing a far more menacing challenge, and it is coming up fast. To kick off this discussion I have brought in an old personal friend of us all. Sure, he is not an OHBC'er, but he is long known individually to us all. He has given journalistic expression to our interim and limited goals. I present our beloved friend, that constructive Oxonian, writer, scholar, and terror of Ministers of Defense, Cockey A. Slop.

**C. A. Slop**—I can assure you Arturo is not seeing little State department boys under his bed. Charley Motor over there at Defense is really fouling up the works. We had Congress all set to give us two or three times as many of some things as was needed. Then when the surplus was, should we say, later discovered, we could have given the extra hardware to the Europeans. This was a brilliant adaptation to Congressional ignorance that nobody much kicked about during War II. Now Charley is chopping those things off as fast as his nosey business men Republicos can find them.

**Flamingo** — Yeah, Charley is still in the motor age. He can't catch up with the atomic age.

**C. A. Slop**—But I am sure what Arturo wanted me to talk about was this budget-balancing nonsense that is beginning to take hold under Pumphrey, the Minister of Finance.

**Flamingo**—You bet, Cockey, bear down on that like we were talking about.

**C. A. Slop**—Well, Pumphrey and Sinny Strong and Charley Motor all seem to be teaming up on this budget-balancing thing. Pumphrey is talking all over the lot. You've got to admit Pumphrey goes across.

**Welfare Dept.** OHBC'er—We all agreed before when Roosenhauer decided he wouln't need or be able to balance the budget before '56 that we had plenty of time to work on him and could swing 'im.

**Treasury OHBC'er** — Yeah, but you got to admit Roosenhauer has his neck stuck way out for a balanced budget and Pumphrey is on the beam with the PM.

**2nd Treasury ORBC'er**—I'm a little older than you fellows. I can remember when nobody dared oppose a balanced budget. Let this idea keep coming home from Pumphrey and his crowd day after day, week after week, for a couple of years, and the people will again fall for the idea it is a good thing.

**Labor OHBC'er**—Listen, guys, we all agree this trend toward cutting spending is a dangerous thing—

**C. A. Slop** — And when the world may burn up for too stingy a defense.

**Flamingo**—Right! We haven't got all afternoon. We all agree, point one, that there is a great danger of the budget being balanced some time. Point two, we all want to do something about it. The question is what do we do about it. Let's get hot on that one pronto.

**Pentagon OHBC'er**—We need another grave emergency.

**Flamingo**—It'd better be good because the Prime Minister is leery of emergencies. He talked against them when Lyman was PM.

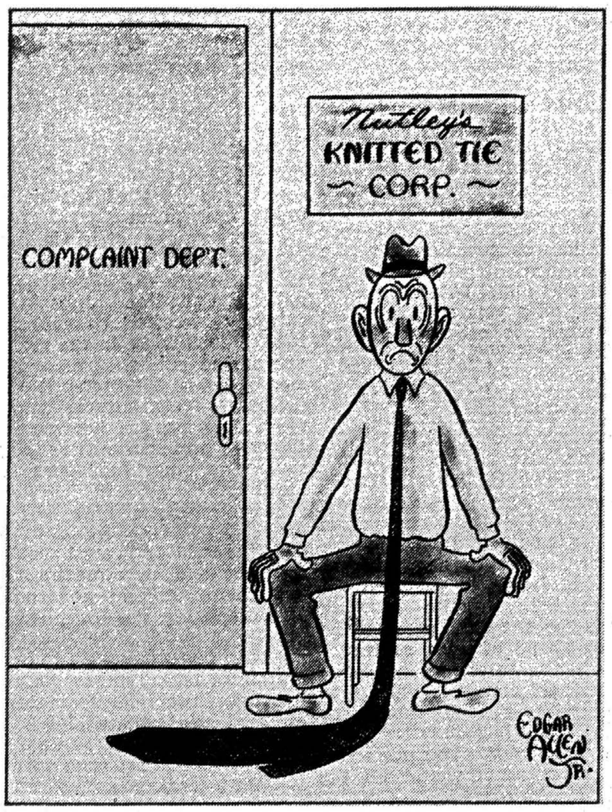
**Pentagon OHBC'er** — What about a lulu of an emergency that would scare the wits out of everybody, including those suckers on Capitol Hill?

**Flamingo**—I am all ears. Go on.

**2nd Pentagon OHBC'er**—Well we know the Blues pulled one heck of an explosion August twelve.

**Atomic Energy OHBC'er**—We were pretty sure it was an H-bomb, but we don't know. We tried to get Roosenhauer to announce it, but he shied off.

## BUSINESS BUZZ




**Flamingo**—Well, it had to be an H-bomb. Not because I am the senior member here, but because we got to get this rolling, I'm going to propose we get this announced by Lou Windstraws.

**AEC-OHBC'er**—But he is a careful guy, and he has got to be sure.

**Flamingo**—Look, you guys at AEC get your intelligence second hand from Al Dullard. If this budget-balancing, expenditure-cutting disease goes on much more, somebody will get into Center Intelligence. McCarty couldn't make it, but some ass on the Hill will one time. Turning—Joe, you worked for Al Dullard. Go work on him. Tell him to feed up Windstraws. Tell him to convince Windy it was the real thing. You can certainly get Gil Donne—he believes the worst possibilities—to announce it any way. Besides he's done in government. Now tell Dullard—and he knows I am in a position to know things —that if he can't convince Windstraws this is the real McCoy the boys from John Taber's committee will start working him over—once they find what a boondoggle he's got . . .

**Air Farce OHBC'er**—Arturo, you forget one thing. How would they get their H-bombs here. We have told people we have the best atom or H-bomb carrying aircraft in the world. They the Blues wouldn't dare start anything or we would blow them to Hades. The idea is around that all the Blues have got is a modified B-29. We thought that was the best propaganda for more money for the Air Farce. Maybe we weren't so doggone smart.

**Several**—Ohhhhh, ugh.

**Weapons Research OHBC'er**—And another thing. Don't forget we're just announcing one H-bomb—the public will take it naturally as the first—that the Blues have shot off. The public thinks it takes a couple of years for the Blues to Junkpile what they call atomic weapons.

**Flamingo**—Sure, I know that. The public doesn't know these things. The public doesn't know that Munhall semi-publicly announced to his staff once that it took 400 subcontractors just to make the A-bomb, that the tolerances were so much finer than most industry can handle, that he doubted that the Blues would EVER make an A-bomb. . . . (continuing) the point is that we've got to work fast and I mean fast. In less than two months I'm going to announce that the Blues have many H-bombs and the means to burn up American cities.

**Ass't to a Secretary for Public Relations OHBC'er**—Arturo, when you do this, write the release so it will IMPLY the Blues have hundreds of H-bombs and the means to deliver them, but don't just say so. Fix it so that it could be said they had discovered some kind of horrible germ warfare that they could release from rats from their ships. Make it kind of fuzzy but point the right way. I'd be glad to help.

**Flamingo** — Thanks, George, I'll call on you.

**Library of Congress OHBC'er**—But Lincoln once said you can't fool all of the people all of the time.

**Flamingo** — That great saint of a party to which I, ahem, fortunately belong, didn't discover two things. One is that you can fool most of the people all the time . . .

**One OHBC'er** — What about last November?

**Flamingo**—Well you can fool most of them most of the time. The other thing Lincoln didn't discover is that you get by if you fool most of the people most of the time.

**Air Farce OHBC'er** — And after your announcement we'll discover the Blues have a 19-jet bomber. That odd number will help convince the people that the Blues have an undiscovered military and production genius. It will make it easier for them to swallow the idea the Blues could do the job in seven weeks.

**Flamingo**—OK boys, you all know what you are to do. Get at it.

***(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 Man's Bookshelf

**Economics of the Guaranteed Wage**—Report of the Committee on Economic Policy—Chamber of Commerce of the United States, Washington 6, D. C.—paper—50c (lower prices on quantity orders)

**Money, Debt & Economic Activity** — 2nd edition — Albert Gailord Hart — Prentice - Hall, Inc., 70 Fifth Avenue, New York 11, N. Y. (cloth), $9.

**Monetary and Banking Legislation of the Dominican Republic 1947** —Henry C. Wallich and Robert Triffin — Federal Reserve Bank of New York (paper).

**Ports of the World**—4th Edition—contains latest information describing conditions in 135 of the most important ports in all sections of the globe—North America Companies, 1600 Arch St., Philadelphia 1, Pa. (paper).