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EDITORIAL

As We See It

This seems to us to be one of those seasons when we should gain immensely from quiet reflection upon first principles. We are entering a period of intense, even bitter argument about proper foreign trade policy. The so-called farm problem has come to the fore with all of its proverbial political troublesomeness. Organized labor, now enjoying a degree of freedom from the general rule against monopoly which no one else save the farmer even aspires to, professes to feel aggrieved with its lot, and insists that the national government do something about it. Some of the world problems which turn in large measure upon things economic are much to the fore, and our part in their solution is a subject of much debate here at home.

One has learned from long, and sometimes sad, experience that discussions such as these are certain to be corrupted by thinly veiled selfishness, narrowness of conception, and much *ad captandum* argument. Perhaps it would be asking better bread than can be made of wheat to expect the disappearance of this kind of counsel. But it is evident enough that there is superimposed upon all these difficulties a mass of misunderstanding of fundamentals and confusion of thought about the real questions involved. A brief period of dedication to calm thought about fundamentals might, in the words of the Scottish poet, "frae monie a blunder free us and foolish notion."

We should profit by a little reflection upon the real nature of wealth and upon the ultimate source of all economic well-being. And in searching for a simple exposition of these matters, one could hardly do better than consult the great

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Outlook for Interest Rates

By MARCUS NADLER*
Professor of Finance, New York University

Dr. Nadler lists as forces back of interest rates: (1) business activity; (2) position and needs of the Treasury; (3) the National debt management policy; and (4) Reserve Board policies. Discusses these forces and holds short-term demand for money in next 12 months will be reduced, while bank funds will be larger. Points out, however, smaller demand for capital from private sectors will be offset by a larger demand for capital by public bodies. Concludes "we have seen peak of interest rates."

The subject assigned to me is "The Outlook for Interest Rates." Many in this audience may be wondering, "Why do I have to listen to a long-winded professor talk on interest rates when I sell stocks?" Interest rates play a very important role in your business. The movement of interest rates determines the movement of high-grade bond prices. If you know what the movement of interest rates will be, then you also will know what the movement of the high-grade bond prices will be.


Marcus Nadler

There is also a relationship between interest rates and certain equity prices. But that would lead me too far afield. However, I can tell you this right now, that if you are going to be in the security business and make a success at it, and not merely be a salesman who goes around passing rumors and hoping that he will get better orders, interest rates will be one of the subjects that you will study carefully for years and endeavor to master it. Otherwise, you will be "hacks" at your profession and, in all probability, will not last long in the profession, and will end up selling insurance.

So much for the importance of the topic to you. It goes

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*Stenographic report of a lecture by Dr. Nadler in the series entitled "The Economics of the Securities Industry," sponsored by the Investment Association of New York in cooperation with the Graduate School of Business Administration of New York University, New York City, Oct. 7, 1953.

Our Tough Budgetary And Fiscal Problems

By JOSEPH M. DODGE*
Director of the Bureau of the Budget

After stressing the universal impact of the Federal Budget, Director Dodge outlines the rapid and complex growth of the Federal spending, making the budget "fantastically large and complicated." Likens situation to that of family that has long lived beyond its income, without plans for changing its habits. Expresses doubt Federal Budget can be balanced before fiscal 1956, as substantial savings are only possible in defense outlays, and the final status in dollars of the budget will depend on needs and costs of national security programs.

You will realize, I am sure, that my discussion of budgetary and fiscal problems is limited by time and therefore has to be selective. What I have to say can neither be all-inclusive nor adequate to the needs of the subject and your interest in it.


Joseph M. Dodge

Nevertheless the impact of these problems on the economy and the lives of everyone is of so much importance that it is, I believe, well worthwhile to help establish some general understanding of them. That is what I hope to do.

The framework of my remarks will be related to the principal budgetary and financial issues inherited by the new Administration, and the problems which they present to you as well as to us. Because, whatever these problems are, and no matter how you define them, they are as much yours as they are ours.

In January the management of your government was transferred to a new Administration. The transfer called for a reorganization of administrative and executive personnel, establishment of

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*A paper by Mr. Dodge delivered before the Economic Club of Detroit, Detroit, Mich., Oct. 12, 1953.

ON THE INSIDE—A glance at the Index on page 3 vividly shows the wealth of information of vital importance to the securities industry, investors and businessmen which is available in the Thursday "Chronicle" every week throughout the year.

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

MAX E. OPPENHEIMER
Partner, Oppenheimer & Co., New York City
Members New York Stock Exchange and American Stock Exchange

I. G. Farbenindustrie Common Stock

The split-up of I. G. Farbenindustrie, the leading and largest chemical combine operating outside of the United States, into four independent corporations has promoted intense investor interest in this country as well as in Europe. After careful study and analysis of the situation, I have reached the conclusion that the new securities offered to Farben stockholders in the liquidation present an extraordinary opportunity to profitably invest in sound chemical concerns of growing world importance.


Max E. Oppenheimer

The chemical industry has long been considered one of the great international money-makers. A large measure of the world's progress since the turn of the century is due to these scientific "Giants." I. G. Farben assumed its "Giant" status in 1925. At that time the eight leading chemical concerns of Germany with total capitalization of 646,000,000 marks, not including reserves, were merged into what became one of the world's largest and most important chemical cartels. The stock market then placed a total value of 3,000,000,000 marks (over $700,000,000) on the new company.

The firm's operations extended into every major chemical field. Farben was a leading producer of coal tars, dyes, pharmaceuticals, nitrogen compounds, inorganic chemicals, films, plastics, synthetic rubber (buna), synthetic fuels, artifical silk and fibers, insecticides and light metals such as magnesium, powdered iron and nickel.

In the 1930's the assets of the company were valued at an estimated 6,000,000,000 marks ($1,500,000,000). However, due to World War II and the Russian grab of East Germany, a substantial portion of Farben's far-flung holdings were lost. Therefore, it is impossible today to effectively evaluate the combine's total assets, which in 1948 were carried on the books at a conservative 1,720,000 marks ($409,000,000).

In 1952 the three major companies of the I. G. Farbenindustrie combine (Farbenfabriken Bayer, Farbwerke Hoescht and Badische-Anilin and Soda-Fabrik) had total sales of approximately $550,000,000. Export sales accounted for 40%-60% of this amount. This volume places Farben on a sales level comparable to Eastman Kodak and well above such major U. S. chemical companies as Allied Chemical, Dow and American Cyanamid. This remarkable return of Farben into the company of chemical giants was achieved in spite of great losses incurred in the second World War. More amazing, the recovery was financed not in the capital market, but entirely out of retained earnings.

What does a holder of RM1,000 I. G. Farbenindustrie shares receive as a result of the liquidation? When the old shares are surrendered, the stockholder will acquire DM 250 shares of Badische-Anilin & Soda-Fabrik of Ludwigshaven; DM 285 shares of Farbenfabriken Bayer, of Leverkusen; DM 210 shares of Farbwerke Hoescht, of Frankfurt Main; and DM 25 shares of Cassella Farberke Mainkur, of Frankfurt/Main-Fechenheim.

Bayer, Badische-Anilin and Hoescht represented the backbone of the company formed in 1925. In 1952 each employed more than 25,000 workers, and had sales in excess of $150,000,000. The scope of production of these three companies is as follows:

Bayer: Heavy chemicals, dyestuffs, pharmaceuticals, photographic products, plastics, insecticides, antibiotics, synthetic rubber and fibres.

Badische-Anilin: Dyestuffs, ammonia, plastics, and intermediate products for synthetic fibres and detergents.

Hoescht: Heavy chemicals, fertilizers, plastics, dyestuff, insecticides, detergents, rayon, synthetic fibres, pharmaceuticals, antibiotics, vaccination cera, oxygen and acetylene.

In spite of the fact that the subsidiary corporations of the combine spent 5%-6% of annual sales for research, substantially more than American concerns, Farben stockholders did not fare badly. Liberal dividends were paid in the prewar years.

Now, one word about stock ownership of the company. Latest reports indicate that Farben has approximately 300,000 stockholders. Like other internationally known European companies, such as Royal Dutch, about 15% of the shares are held abroad.

German securities, including the new issues resulting from Farben's liquidation, may be acquired by American investors with Sperrmark (Blocked Marks) which at present are quoted at a discount of approximately 25% from the Deutsche Mark. To some extent, this resembles a situation that occurred a few years ago when English securities were bought at a discount of from 20%-30% with switch sterling. This discount has narrowed to approximately 4%, thereby adding to investors' gains. A similar narrowing of the Sperrmark discount would prove just as profitable to holders of Farben shares.

The Farben liquidation, in my opinion presents the alert investor with an outstanding opportunity to buy shares of these leading chemical companies at prices far below those of securities of either American chemical concerns or of comparable German companies. While leading chemical companies of the United States are valued by the stock market at approximately 110% to 290% of yearly sales volume, Farben is valued at only 60% of annual sales. Furthermore, in contrast to many American companies, Farben is virtually debt-free.

Several Wall Street firms have already established active markets in I. G. Farben certificates. Prices are based on the official Frankfort Stock Exchange quotations, and on the prevailing Sperrmark rate. Markets in the new securities may be expected in the near future on a when-delivered basis.

This exchange of the I. G. Farben shares, which are traded in the Over-the-Counter Market, for new securities will represent one of the greatest corporate break-ups of modern times. It is certainly comparable to the great Standard Oil split-up of 1911, and the resulting profit making possibilities are most attractive.

JAMES H. YOUNG
President, J. H. Young & Co., Inc., New York City

Avildsen Tools & Machines, Inc.

My choice of a good businessman's risk at this time is a combination package consisting of the 5% prior preferred and common stocks of Avildsen Tools & Machines, Inc. This selection is based upon the supposition of business activity continuing at near its present level or experiencing not more than a minor recession during the next few years.


James H. Young

This company is a manufacturer, principally, of high speed twist drills which are used for air-craft, trucks, tractors, tanks, jet engines, electronics, guided missiles, electric equipment, machinery, farm implements, and household utilities. These drills, used by manufacturers of durable and consumer goods, are expendable. This means frequent and continuing orders. The company is now in the upper brackets in the industry in point of volume of sales as compared with the bottom of the list 13 years ago.

Plants are located in New York, Chicago and Los Angeles and this geographic distribution is effective in maintaining closer contacts with customers and facilitating prompt delivery of orders. Modernized equipment has been installed in recent years and has reduced operating costs in a highly competitive market. A well coordinated sales organization has been built up and strengthened in recent years by additional dealer contacts.

Since 1941 this company has shown a profit each year except in 1950 and 1952.

In 1946 a loan of $1,250,000 was negotiated with the Mutual Life Insurance Company at 4½% interest with an annual amortization provision over a 15-year period. A dividend restriction was included in the loan agreement preventing the company from paying dividends when working capital became lower than a specified amount. This occurred in 1949 making it necessary for the company to discontinue dividend payments and this accounts in part for the dividend accumulations. The reduction in working capital resulted because the management made the decision to install more efficient machinery and equipment in order to reduce production costs and they used part of the working capital for fixed capital, thus reducing the working capital below the limits set by the insurance company. When the insurance company loan was brought down to $608,000 the company refinanced it with the dividend restriction eliminated and it has subsequently paid the

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The Look Ahead!

By CHARLES M. WHITE*
President, Republic Steel Corporation

Asserting he sees nothing in near future to scare us, head of nation's third largest steel producer admits, however, business will fluctuate, but no deep depression, such as in early '30s, is likely. Praises Administration leaders for their understanding of economic and military problems, and lauds the curbs put on Socialistic trends. Expresses satisfaction with return to a buyers' market.

I do not claim to be a prophet, nor the son of a prophet. I cannot read the future. But as an American businessman I know that certain events affect the future of American business, and that certain trends are liable to go on and on and again affect business. I also know that the smart businessman is always prepared for the worst. What is going to happen to American business? John D. Rockefeller, the elder, was once asked what would happen to the stock market.


C. M. White

"It will fluctuate," he replied. He was right. It did. It still does.

The same is true of business. It will fluctuate. We have had good business for years now, but it has fluctuated. It cannot go on rising steadily. Occasionally it must retreat if only to consolidate its gains. The history of the United States shows that while we have had recessions, and even depressions, business has made steady progress for a century and a half. Business could retreat from where it has been and still be good business.

Business reached a record index high just a few months ago of 243—that is 243% of the 1935-39 base period. Even in the summer months of 1953 more than 63,000,000 Americans were employed—a record high. That means that all these men and women were earning high wages and spending them.

The steel industry produced 76,600,000 tons of ingots in the first eight months of 1953, also a record. Now it has eased off slightly and it may ease off more. I for one cannot see anything in the near future to scare us. We have been operating so long at 100% of capacity that certain people in Wall Street and elsewhere get alarmed when operations drop to 90% of capacity. They might well drop to 85%, or 80%, or less.

Just remember this: that at 90% of today's capacity more steel would be produced than at 100% operation in 1951, and 1951 was a good year for the United States and for the steel industry—and 80% of the industry's current capacity is well over the total capacity in 1946.

*An address by Mr. White before the Great Lakes Regional Conference of The Cleveland Society of Security Analysts, Cleveland, O., Oct. 13, 1953.

Moreover, 100% operation of our mills is emergency operation. That is wasteful and extravagant operation. It means that we are straining to extract another ton of ore, another ingot. It means overtime pay on a large scale. Recently, for instance, Republic Steel has been paying out from $800,000 to $1,200,000 a month in overtime pay.

Under capacity operations we often find it difficult to supply customer demand. They may not like it and may go elsewhere. In order to avert that we go a long way to oblige them. In fact, we may lose money on an order just to service it. Finally, it means that we are reluctant to close a plant or a furnace for repairs, and when forced to do so we repair it as quickly as possible. And that means that we must maintain a large investment in spare parts—acres of them—so that we will be ready for quick action. All this is expensive and uneconomical.

Efficiency Greater When Operating at 90% Capacity

On the other hand 88%, or 90%, operation is efficient operation. Labor is more responsive, and consequently more productive. We don't have to work overtime, and we don't have to pay premium prices for steel scrap and other materials. Our machines and our mills can operate at the most profitable pace. And we can give good service to our customers.

You would probably like to know the break-even point for Republic Steel. So would I. I am always being asked that question. Honestly, I don't know, nor does anyone else. So many factors enter into it that it is impossible to calculate in advance. One kind of operation is more profitable than another. One mill is more efficient than another. The matter of mere location is important. With a corporation like Republic Steel which has many plants and hundreds of products and operates over a wide area much will depend on what is being produced and by what mill and where. We have a complex operation and few of the answers are simple.

Then again Republic Steel has fabricating plants that make a great variety of products for the consumer. With 100% emergency operation we have treated these plants like other customers, no better. They have been getting 18% of our steel and netting us a double profit. They have often been short of steel. As other demands on us decline, we can feed more steel, perhaps as much as 40% of our capacity, to these

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Articles and News Page

Regular Features

* Article not available this week.

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Fear of United States Deep Depression Unwarranted

By HON. WINTHROP W. ALDRICH*

U. S. Ambassador to Great Britain

Former prominent New York banker seeks to dispel widespread fear in Britain and on European Continent that a depression is likely soon in U. S. Points to America's expanding economy, and quotes President Eisenhower as favoring an international mutual benefit economic policy covering U. S. and foreign countries. Calls attention to President's Commission on Foreign Economic Policy and to the increase in U. S. imports. Says it is clear that if the American economy shows real signs of serious decline, the U. S. Government "will not sit idly by."

America's foreign trade has received an unusual amount of attention in recent months. It has received increasing attention not only on this side [Europe] but in America as well. This has led to some misconceptions.

Winthrop W. Aldrich

There seems to be a general assumption that the reason so many people, both at home and abroad, are saying America ought to be importing more must be that America is now backsliding and importing less. As you know, the facts are quite the contrary. American imports from the rest of the world have been increasing constantly since the war. They are now greater than they have ever been before. And from this country [England] alone they have almost doubled since 1949.

Nor do I see any foundation for the view that America has become increasingly protectionist. America's tariff rates have fallen steadily since the war. To be sure, those who believe in tariff protection are asserting that the reductions have gone far enough. On the other hand, never before have so many leaders and organizations of American business, labor, and agriculture publicly advocated programs for the promotion of greater international trade, including more liberal American import policies.

When I was here in 1945 as Chairman of the Council of the International Chamber of Commerce to preside over the first postwar meeting of the Council, I noted in my opening address that the principal objective of the ICC was "the expansion of world trade." I said then that an expanding volume of world trade was "the essential prerequisite of the type of economic advancement and security envisaged by the Atlantic Charter." This has certainly been the view of the U. S. Council of the ICC. In the last few years one after another of the major organizations of American business have declared themselves in support of this principle

Only last week announcement was made of the formation by prominent businessmen of a committee of distinguished citizens to expound the needs of world trade to the American people.

Ever since he came into office President Eisenhower has expressed his strong belief in the need for higher levels of international trade. He felt that the time was ripe for a major national reappraisal of America's economic position in the world. He wanted a policy developed which would bring mutual benefits to the United States and to other countries. He desired particularly to make sure that any program recommended would be acceptable to Congress and result in legislative action.

Accordingly, he proposed the establishment of a new commission to study all aspects of American foreign economic policy and to come forth with appropriate recommendations for action. Congress adopted this proposal and a commission of 17 members was appointed. It is headed by Clarence Randall of Chicago, President of the Inland Steel Company and a highly thoughtful and articulate spokesman for American business. It includes six other representatives of the public, but most important of all it includes ten leading members of the Senate and the House of Representatives from both parties. Because of its composition, the Commission is bound to carry great weight with Congress.

The crux of the problem before the Commission was noted by President Eisenhower in his letter to Congress asking for the establishment of the Commission.[1] It is the development of a policy which is in line with America's new creditor status and which at the same time does not "place unequal burdens" on any particular segments of the American economy. This is essentially the basic problem of democracy—to reconcile the interests of the nation as a whole with those of particular individuals and groups.

It is hoped that the Commission, which met for the first time last week,[2] will have something to report in the early months of 1954. But that does not mean that all action is at a standstill until then. One useful step was taken during the last session of Congress, which passed a customs simplification bill.

Another customs simplification bill, containing even more important provisions including one simplifying the valuation system, was approved by the House of Representatives and stands a good chance of passing the Senate when it meets again in January.

Imports at Record Levels

In the meantime also, America is continuing to import at record levels. And I am convinced that, at the present time, even without any further changes in legislation or tariff rates, there is room for still greater exports to the United States. The success of many British firms in the U. S. market in the past few years proves this beyond a doubt. As of now, the United States is one of the greatest and freest markets in the world.

In the last few weeks, apparently, attention has shifted in Europe from the prospects of change in America's economic policies to the prospect of change in America's economic conditions. The reasons for this seem to vary. One notion is that American prosperity is tied up solely with the Korean War and, now that the truce has come, there must be a collapse. Another idea is that American economic activity has reached such a high point that it must obey some unexplained law of economic gravity and begin tumbling down, and there is a feeling of real concern that certain economic indices have changed course.

I have never owned a crystal ball and I am unable to make predictions. But there are some comments I should like to make.

The idea that the level of the American economy was dependent on the continuance of actual fighting in Korea is quite unfounded. That idea is based on the assumption that our whole defense effort is geared to Korean requirements alone. It is true that the aggression in Korea alerted us, as well as the whole free world, to the dangers of the Soviet threat and caused us all to increase our defense activities. But the threat still remains very much with us, in several parts of the world. And the Korean truce will not greatly affect our defense expenditures. We will unfortunately have to keep our spending for defense at a high level for some time to come.

As for the concept that what goes up must come down, I do not believe that the complex and growing economies of the world are subject to the same laws of physics which apply to paper kites and rubber balls. In the past century and a half, the levels of economic activity have been moving

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*A paper by Ambassador Aldrich delivered before the American Chamber of Commerce in London, England Sept. 29, 1953.

1 State Department Bulletin of May 25, 1953, p. 747.

2 *Ibid.*, Oct. 5, 1953, p. 450.

LETTER TO THE EDITOR:

Says SEC Shows Signs of Jaundice

David Unterberg, formerly SEC Enforcement Attorney, contends Securities and Exchange Commission is faltering because of "emasculation," due to staff shortages. Advocates bringing the SEC back to life with adequate apporiations and increased staff—or "kill it."

Editor, Commercial and Financial Chronicle:

The SEC was formed in 1932 and was a lusty youngster. As the years went by, the lusty youngster started to grow, giving every promise that the hopes and ideals of its originators would be fulfilled. In its teens, it had the enthusiastic support of the public and the endorsement (with tongue in cheek by some) of the brokerage association.

David Unterberg

In 1940 it employed some 1670 individuals and had an operating budget of $5,400,000. Its employees were scattered among 9 regional offices and the principal office in Washington, D. C.

The SEC handled thousands of registrations of securities, investigated hundreds of broker-dealer proceedings, and in addition, supervised and was responsible for the enforcement of the Public Utility Holding Company Act, the Investment Company Act, the Trust Indenture Act, the Securities Act of 1933, and the Securities Exchange Act of 1934, in addition to participating in hundreds of reorganizations.

The SEC and its staff had time to ride herd on all of this work and with expedition.

What does the SEC look like now that it has gained its majority?

From a quick look, I would say that the rosy cheeked teenster shows signs of a jaundice mixing with the rose.

Why should such a promising future appear to be faltering after such great success and approval? One answer — Emasculation!

Compare —

1940: 1670 Employees, $5,400,000 (low tax and cost of living period) Budget.

1954 less than 850 Employees, $5,000,000 (high tax high cost of living period) Budget.

The case and work load has remained the same if it hasn't actually increased. More and more registrations are being handled by a Staff so short that it must go on a waiting list to receive stenographic work.

Speaking as one who has seen both sides of the picture, i. e. as an enforcement attorney with the SEC and later as an attorney specializing in securities law, I say this strangulation, planned or otherwise, must stop.

A hamstrung SEC is a fraud on the public, the securities dealers and the Staff.

The public has been led to believe in the SEC—What good is a policeman who rides in a wheelchair?

The securities dealers, due to Staff shortages, are faced with delays in processing registrations. Corporations seeking to publicly offer stock must wait a dangerously long time for action on registration statements. The Staff is frustrated by its inability to perform its duties as it would and should like to do.

With an increased staff, the Commission will be in a position to review the Acts and various rules; and in the light of the practicalities of present day situations, liberalize outmoded policies, and bring the SEC into focus with modern financing, its needs and operations.

What is the solution? Either bring the SEC back to life with adequate appropriations and increase of Staff — or — harsh as it may sound — KILL IT.

Only by adopting one or the other alternative will the present administration be true to the public, the brokers and the SEC.

Support them or dissolve them!

Respectfully,

DAVID UNTERBERG

Unterberg & Unterberg, Attorneys at Law, 52 Broadway, New York City (4).

Oct. 7, 1953.

Robert Mill Joins Campbell, McCarty Co.

(Special to THE FINANCIAL CHRONICLE)

DETROIT, Mich. — Robert B. Mill has become associated with Campbell, McCarty & Co., Inc., Buhl Building, members of the Detroit Stock Exchange. Mr. Mill was formerly associated with Don W. Miller & Co.

William Williams With Parsons & Co., Inc.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio — William A. Williams has become associated with Parsons & Co., Inc., N. B. C. Building. Mr. Williams was formerly a partner of Pratt and Williams.

With Hutchinson & Co.

(Special to THE FINANCIAL CHRONICLE)

PUEBLO, Colo.—John F. Nance has been added to the staff of Hutchinson & Co., Inc., Thatcher Building, members of the Midwest Stock Exchange.

COMING EVENTS

In Investment Field

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. 18, 1953 (New York City)

Association of Stock Exchange Firms Annual Meeting and election.

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.

The State of Trade and Industry

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

A slight contraction was registered in the period ended on Wednesday of last week in aggregate industrial production for the nation as a whole, and it continued to be down mildly from the near-record level reached last March. However, it was slightly higher than the comparable level of a year ago.

Reporting on business activity across the nation at the summer's close the United States Department of Commerce stated that it continued at high levels, but there were indications that some segments were slipping a bit. Consumer demand was sustained by record personal income receipts, which ran at a yearly rate of $287,000,000,000 in July and August—1% above the second quarter pace. But new business received by manufacturers "declined substantially," the survey added, chiefly as a result of defense production cutbacks.

In the latest recorded week available, reports on claims for unemployment insurance benefits show a continued rise as layoffs occurred in some consumer durable plants, shoe factories and defense sub-contractors.

A report from the Bureau of Employment Security discloses that workers covered by state-run unemployment insurance systems and the money available to pay the workers both hit new highs in August. At the month-end, reserves earmarked for the states came to $8,800,000,000 and workers covered by state systems numbered 35,100,000.

Since June 30, 1950, it was reported, reserves have risen more than $2,000,000,000. But the average number of workers covered increased by 4,500,000. Thus, the gain in reserves of state jobless pay systems has been "roughly paralleled by increases in the potential liabilities" in the event of unemployment, the Bureau noted.

Premium steel prices are falling like tenpins, but "regular" mill prices remain firm, states "The Iron Age," national metalworking weekly this week. Although overall consumer demand is expected to remain high for at least several months, steel producers have pretty well caught up with demand for most of their products. After more than three years of guns-plus-butter shortage, steel buyers have become extremely cost conscious. Once again they are rating price more important than delivery, continues this trade magazine.

The result is that high cost producers can no longer sell at premium prices. Faced with the alternative of shaving prices toward competitive levels or reducing operations they are acting as expected and are reducing prices, it states.

At least 10 steel producers have recently lowered premium prices, most of the cuts coming in the past two weeks. The producers are pretty well spread geographically; three being in Michigan, three in Illinois, three in the Pittsburgh area, and one in the East, this trade weekly further reports.

Premium prices have not in every case been slashed all the way to competitive levels. But they will be if the high cost producers find themselves still unable to sell enough to keep their operations at a satisfactory level. Chances are competition will continue to force their hands, "The Iron Age" declares.

The steel market actually appears stronger than it has for several weeks and now that the hysteria over returning competition has died down, these conclusions may be drawn, states this trade authority:

(1) The steel market is fundamentally sound. Outlook is for better than average business at least through the first half of 1954.

(2) Order cancellations, though still sizable, have been tapering off and are believed past their peak.

(3) Consumer inventory correction, largely responsible for softer market tone in recent weeks, is about two-thirds accomplished, should be completed before year's end.

(4) Freight absorption and premium price adjustments brought about by more competitive conditions represent no fundamental weakness in steel prices.

(5) Steel producers operating at about 95% of rated capacity are probably making more money than they did while operating at 100% or more. This is because the slight decline in the ingot rate largely reflects disappearance of high cost conversion production and return of marginal facilities to standby basis.

As if to prove that last week's advances were no flash in the pan, scrap prices rose again this week. Although "The Iron Age" steel scrap composite price rose only 50 cents a ton to $32.83 per gross ton, prices were firmer in most areas. The decision to open-end export quotas for the balance of this year was helping shore up the market, this trade authority points out.

In the automotive industry last week, states "Ward's Automotive Reports," production of independent car makers is limp-

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New Jersey Highway Authority to Sell $135,000,000 Bonds

Sale of State-guaranteed obligations to be held about Nov. 18, according to Bayard L. England, Vice-Chairman and Treasurer of the Authority. Offering constitutes remainder of authorized issue of $285,000,000 for construction of Garden State Pkwy.

Plans for the sale of $135,000,000 New Jersey Highway Authority state-guaranteed bonds to complete the major construction of the Garden State Parkway were announced October 20 by Bayard L. England, Vice-Chairman and Treasurer of the Authority. The Authority will invite bids for the bonds, to be opened on or about Nov. 18.


B. L. England

The forthcoming sale will cover the remainder of the $285,000,000 of bonds presently authorized carrying the state's unconditional guarantee as to both principal and interest. This will mark the second big sale of bonds this year to finance the construction of the projected 165-mile-superhighway which will extend from Paramus and Paterson to Cape May. In July, the Authority sold $150,000,000 state-guaranteed bonds to a nationwide banking group. The issue was heavily oversubscribed and the syndicate books were closed on the same day that the offering was made to the public.

The progress of construction to date indicates that the entire Parkway will be open to traffic in 1954 and that major sections will be open by Memorial Day, 1954.

The Parkway is counted on to ease the state's most serious traffic congestion, in Essex, Bergen and Union counties. It will also traverse the state's shore resort area and bring new economic benefits to the rapidly developing sections of southern New Jersey. The most modern engineering features to promote safe and comfortable travel will be embodied in the Parkway construction.

A. S. Sawers Appointed By Mfrs. Trust Co.

Appointment of Andrew S. Sawers as an Assistant Vice-President of Manufacturers Trust Company has been announced by Horace C. Flanigan, President.

Mr. Sawers came to the bank in 1938 and has worked in various departments and offices until 1951 when he was appointed an Assistant Treasurer. From January, 1942 until March, 1946 he served in the Army Air Corps where he attained the rank of Major.

Mr. Sawers is assigned to the Metropolitan Division of the Banking Department.

Joins B. C. Morton Staff

(Special to The Financial Chronicle)

CHICAGO, Ill.—Harry H. C. Gibson has become connected with B. C. Morton & Co. of Boston. In the past he was with Wilson, McMaster & Co.

Rodman & Linn Adds

(Special to The Financial Chronicle)

CHICAGO, Ill.—Bruce P. Tweed has become affiliated with Rodman & Linn, 209 South La Salle Street, members of the New York and Midwest Stock Exchanges.

Observations . . .

By A. WILFRED MAY

Corporate Democracy Under the New Administration

The SEC's current proposals for proxy rules changes, as definitively promulgated by the Commission and discussed by Chairman Demmler, are most vitally important to the financial world, the business community, and the lay shareholder. In indicating the general direction of Federal securities regulation under the new Administration as well as by their nature touching at the foundations of our entire corporate system, they merit the closest attention.


A. Wilfred May

The instrument of the proxy is a device rendered indispensable to the existence of the company meeting by our present-day corporate set-up, which so distinctly segregates ownership from control. Irrespective of individual attitude toward the kind and degree of regulation of proxy solicitation, its functioning as a powerful force for good or evil in the capitalistic system is indisputable. "Unregulated, it is an open invitation to self-perpetuation and irresponsibility of management. Properly circumscribed, it may well turn out to be the salvation of the modern corporate system," is the apt conclusion of Professor Louis Loss.*

The Good Old Days of the Blank Check

In the old days before "corporate democratization" as instituted by the SEC, proxy solicitation consisted of a small card, without disclosure of information and merely to be signed in blanket approval of directors' and management's acts—past, present, and future. Thereafter, under the Securities Exchange Act of 1934 and the Public Utility Holding Company Act of 1935, the Commission acquired very broad discretionary power to administer for the public's interest in this field; at least in the cases of securities registered on exchanges, all registered public utility holding companies whether listed or unlisted, and regulated investment companies.

The basis on which the regulation rests is full *disclosure*—of facts relevant to the election of directors and approval of management activities; as transactions with the corporation, directors' occupation and experience, stockholdings, compensation in various forms, including bonus and profit-sharing plans, etc. Outside the disclosure area, the shareholder is guaranteed the opportunity to vote for or against each proposal that may be made by a fellow-stockholder.

Thus in both areas the proxy has been made an instrument serving as the closest substitute for actual attendance at the meeting (as a practical matter, physical attendance at the meeting affords little greater responsibility or power, excepting perhaps in the way of frustratedly "blowing one's top").

In 1938, three years after the initiation of the proxy legislation, the Commission effected a general revision of the rules, giving, among other things, the right to vote a "yes" or "no" on each matter to be considered. Further revisions were enacted in 1940 and 1942, the latter including the important requirements that a copy of the annual report precede or accompany the proxy statement, and that the management include in its material a statement up to 100 words in support of any security holder's proposal which it opposes. Further amendments were made in 1947 and 1948.

That Controversal Minority-Suggestion-Box

It is this matter of procedure in handling stockholders' proposals, and the ensuing activities (deemed *antics* in some quarters) thereunder, that constitute the hub of the current proposals. In a recent exposition of "Current Thinking at the SEC," Chairman Demmler hit at the stockholder-champions thus: "The rule requiring inclusion of security holders' proposals in management's proxy material has been availed of frequently by a few professionals and seldom by the general run of stockholders. The Commission does not propose to choke corporate democracy. Neither does it propose to encourage abuse of their privilege by those who use it as a grindstone for their own axes."

Shooting at the Publicity Hounds with Anonymity

Such inclination to tighten up on the submission of reforms and other proposals is embodied in the specific new proposals in several ways. They state: "In order to discourage the use of this rule [compelling inclusion of proposals] by persons who are motivated by a desire for publicity rather than the interests of

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*In "Securities Legislation" by Louis Loss, p. 521 (Little Brown).

Rates of Progress in Natural Gas

By IRA U. COBLEIGH

Author of "Winning in Wall Street"

With many enterprises displaying a somewhat slackened pace, it's refreshing to gaze on the gas industry which is still piping a cheerful tune. Hence today's theme — natural gas.

The last time this column zeroed in on the doings of the gas gentry (August, 1952), it was to take a dim view of certain rate decisions of the Federal Power Commission; in the Northern Natural Gas, and Colorado Interstate cases. In particular, we took exception to a "cost of money" theory of pipe line valuations which wound up determinating a 5½% over-all capitalization, as an appropriate rate base. The essential error in this woolly, witless cost-of-money theory was that it provided no solid base for rates whatever. All it was, was an inverted financial thermometer applied to pipe line capitalization, which would have had every company trotting into the Commission for rate relief in years of depression, the very time when nobody could afford higher rates; and when financing for expansion would be costliest.

Ira U. Cobleigh

The New Commission

That, however, was last year. Today we have a different bunch in Washington who were brought up on enterprise, and not Engels, and their homespun American business philosophy has fortunately spilled over into the Federal Power Commission. Mr. J. C. Kuykendall is now Chairman of the Federal Power Commission, replacing Mr. Buchanan, a bureaucrat visibly insensitive to the dominant incentive motif in our kind of economy. Also Mr. Harrison Wimberly gave place on the FPC to Mr. S. L. Digby, some time Conservation Commissioner in Louisiana, and particularly well versed in gas reserves for, and delivery to, pipelines.

The Commission, as now composed, is far more alert to the needs of a regulation that encourages the extension of gas supply to more and more people and areas. It seems willing to provide in its regulatory decisions, financial incentives for expansion, and a fair shake for the investor. For example, in its important decisions, the reconstituted Commission granted a 6% rate base to Mississippi River Fuel Corporation; a 6% return basis to Texas Gas Transmission and Tennessee Gas Transmission and a 6¼% rate to United Fuel Gas Co. The key sentence in this latter decision of the Commission is: "Our responsibility to encourage necessary expansion of facilities for the purpose of rendering adequate service is no less than our responsibility to insure that service be supplied at reasonable rates."

Buoyed up by the invigorating air of such a sensible and constructive regulatory climate, gas securities, across the board, have taken on a new look in recent weeks. Meanwhile, the statistics of the trade reflect a continuance of the dramatic expansion so characteristic of this industry for the past 20 years. Gas production was a fabulous 8.6 billion cubic feet in 1952. It will probably nudge the 9 billion mark this year. About supply, we have on hand a paltry 200 trillion cubic feet of recoverable reserves—about 25 years supply at today's combustion rate; but we're finding more every day.

In use, 11 million homes now heat with gas, even though 55% of natural gas sold is burned in industrial plants; and pipe line distribution has extended to over 90% of the map of the U. S. A. Gas is gigantic.

Give-Away Prices Ended

About prices, the days of cheap or almost give-away gas are gone forever. Why ten years ago, pipe lines could buy their basic commodity, natural gas, at the wells for a nickel per MCF. Slowly this price has advanced and many delivery contracts are at 12¢ per MCF; and a few as high as 16¢. This upward price trend is, of course, a golden boon for producers, but it's a mixed blessing for the integrated companies. They sell to themselves from their own wells, but because they're interstate, they come under the Commission. Now will their valuation there be on what those gas production facilities cost them years ago; or on the basis of what they're worth today with gas reserves worth 15¢ per MCF? That's a poser and may, in some cases, be worked out only by handing to pipe line stockholders, shares of stock in the producing units. Panhandle Eastern Pipe Line Co., in particular, has a fabulous gas reserve (perhaps 3 trillion CF); and when this outfit has, in the past, distributed share interests in its production properties, it's been Christmas for the stockholders.

Perhaps, by now, we have painted enough backdrop to justify trundling in a few specific samples of current investment values in petroleum vapor, or its transport.

American Natural Gas Co.

Everybody seems to have a very kind word to say about American Natural Gas Co. Here's a splendid example of an integrated company. Starting with its Michigan-Wisconsin Pipe Line Company (wholly-owned) which runs an 800-mile pipe line from Texas to Joliet, Ill., it distributes gas in Detroit, Grand Rapids and Muskegon, Michigan, and in Milwaukee, Wisconsin.

The main problem of American Natural Gas in recent years has been to get enough gas to supply the burgeoning needs of its territory. To that end ANG has embarked on a vast $200 million expansion program, providing, among other things, (1) the building of a new 1,000-mile 30-inch gas line from Louisiana to the Detroit area, (2) much greater underground storage area, and (3) facilities to pipe in gas to 150,000 new home heating clients.

ANG is thought to have, on completion of this big program, an exalted horizon for earnings, capable of carrying per share net from present levels of around $3.40 per year to above $4. While the investor awaits this hoped for improvement, he has some solace in the $2 current dividend and a yield of around 5.70% at today's NYSE quotation of 35½. American Natural Gas common has been bought by a number of investment trusts both for current return, and gaseous growth.

Chicago Corporation

On the production side, there's been favorable comment about Chicago Corporation, importantly because of the extent of its estimated reserves in three kinds of petroleum: (a) Natural Gas where some estimates have run as high as 1¾ trillion cubic feet; (b) Crude Oil, above 11 million barrels; and (c) Distillate—32 million barrels. Bear in mind these are but estimates, and are unsupported by any company statements on the subject; but if they have any validity at all, they suggest that reserves alone might be worth considerably more than the $19¼ a share current quotation (NYSE) of the 3,324,196 common shares.

Growth in earning power here has not flagged, moving nicely from $7 million net sales in 1947 to somewhere around $18 million for this year. Projected net for this year is around $1.65 per share, affording comfortable coverage for the current 80c dividend.

Exploration by Chicago Corp. has been both aggressive and successful, with new production from wells in Calhoun, San Patricio and Coleman Counties, Texas; and in Cheyenne County, Neb. Chicago seems definitely an upgrading enterprise and its market action in the soggy sessions of the summer appeared to be particularly resolute.

East Tennessee Natural Gas Co.

Among the pipe lines I'd like to switch from standard reference to the leaders, such as Tennessee, Texas Eastern, Trans-continental, El Paso and Northern Natural Gas, all admittedly of investment grade, and talk for a moment about an up and coming smaller unit—East Tennessee Natural Gas Co., whose 1,072,257 common shares are traded, over the counter, at 8¼ and presently are without benefit of dividend status. East Tennessee operates 444 main lines and 110 lateral lines, serving utilities and industries in Middle and Eastern Tennessee, and completion of an additional 100 miles of main line from Knoxville to Kingsport, Tenn., is due shortly. Largest customer is the Atomic Commission at Oak Ridge.

Get the prospectus (dated 4-10/53) on this interesting company, and, on the basis of the facts there (the only official ones) determine any personal interest you may have in either the common, or the 5% Convertible Debentures due 5-1/68, convertible into common at $10. These bonds sell at par and give you a double burner in the market range of East Tennessee Natural Gas!

Well this is it for today, as they say on TV, and here's hoping you've enjoyed this swift panorama of rates of progress in natural gas. All kinds of rates in fact — interest, dividend, wholesale and consumer!

E. Lowitz Admits

William H. Lowitz on Oct. 29 will acquire membership in the New York Stock Exchange and will become a partner in E. Lowitz & Co., 29 Broadway, New York City, members of the Exchange. On the same date J. Kenneth Lyden will withdraw from partnership in the firm.

A Method of Approach To Security Values

By PAUL A. MURPHY*

Oglebay-Norton & Company, Cleveland, Ohio

In explaining a method of judging trend of security values, Mr. Murphy lists three factors to be considered: (1) outlook for interest rates; (2) outlook for equity earnings; and (3) valuation of equity earnings relative to interest rates. Gives illustrations of the process of applying these factors.

Because the forecasting of security prices is such a hazardous pastime and since my errors seem to outnumber my correct projections, I should like to focus your attention primarily on a method of approach to security values. As nearly as I can tell this approach resembles a computer—if you put in the right material, you will get the proper answer.

To illustrate the operation of this method I will attempt to feed in the proper material and grind out the right answer. However, I hope that my inevitable errors will not reflect on the approach but, rather, on the evaluation of the factors.

The three factors are simple enough:

(1) Outlook for interest rates.
(2) Outlook for equity earnings.
(3) Valuation of equity earnings relative to interest rates.

My basic assumptions — and here is where the trouble starts —are also simple:

(1) Average population growth of 1½% annually.

(2) Average increase in productivity 1½% annually (a combined average annual growth of 3%).

(3) Prices increasing 1% or more annually (due to wage increases outrunning productivity).

As a base point I use the level of business prior to Korea but after 1949 of around 190 FRB or around 200 FRB for 1953. To me, this means an active growing economy over the next decade or more. Where you disagree, please substitute your own figures. And now the evaluation of the first factor—Interest Rates.

I feel long-term money of the highest credit is worth at least 3% in purchasing power. Since I have assumed at 1% annual loss due to wage demands in excess of productivity, a basic rate of 4% seems logical as long as strong national unions exist. Funding of our vast public debt would seem to require some such long-term rate also.

My assumption of a 4% basic rate would, of course, mean a decline in long governments of 10-20 points. However, the important point is to put down your own conclusion.

For the second factor — **Equity Earnings** — I will use the much maligned Dow Jones Industrials and attempt to apply a modified du Pont approach. This involves computing the amount of capital at work and the rate of return that might be anticipated.

For the amount of capital I will use the book value of the Dow Jones Industrials, backed up by replacement costs and the prospect of retained future earnings. At the end of 1953 book value should approach 225 or nearly 2½ times prewar and nearly double the figure for the close of World War II. Replacement cost, an important factor in an expanding economy, would exceed 300 although I have made no effort to compute a figure. As you know, it is most unusual to have the Dow Jones Industrials sell below book value. I'm afraid you will have to accept the book value figures unless they have been computed incorrectly.

*A talk by Mr. Murphy before the Great Lakes Regional Conference of Cleveland Society of Security Analysts, Cleveland, O., Oct. 13, 1953.

The rate of return on this capital is subject to wide divergence. It is interesting to note, however, that the current rate ex EPT is about 14%, the 1949 rate was almost 15% and the 1937-39 return was roughly 10%. I will assume a minimum average rate of 9% on book value in the future (this would be 6.7% on minimum replacement—or the 1938 recession low).

Should the Dow Jones Industrials average 9% on the estimated year-end book value of 225 the resulting earnings would be $20. Once more be sure to substitute your own figure if it differs.

The final factor—**Valuation of Earnings** — is probably the most difficult. Because of earnings and dividend irregularity and resulting price instability as well as greater risk of ultimate loss, common stock earnings sell at a discount to interest income. It should not be forgotten, however, that earnings can also grow whereas interest is fixed. I will assume that conservative average equity earnings are worth 60% of interest income.

On this basis an interest rate of 4% or 25 times income would indicate 60% of this or 15 times earnings as the proper stock valuation. Applying this latter multiple of 15 to earnings of $20 would indicate a fair valuation of 300 for the Dow Jones Industrials.

You have probably noticed two built-in cushions. First, if business were less active and the interest rate dropped to say 3% or 33 times income, equity earnings at 60% would become worth 20 times. Thus earnings could drop from $20 to $15 and still be worth 300.

Secondly, retained earnings keep adding to book value so that a constant rate of return would mean increasing earnings of 3-5% per year.

Even assuming the Dow Jones Industrials be worth 300 with a 3-5% annual gain, it does not follow that these stocks are immune to a further decline — investors psychology is much too fickle for such assurances. However, it does seem reasonable to assume that time is running against the pessimists. Depending on the factors you have applied you may or may not reach this conclusion. In any event I hope this procedure reinforces your thinking.

Since there is so much criticism of the Dow Jones Industrials and because this approach may be considered rather theoretical I would like to try the method on three components of the Industrial Average.

(1) du Pont — a glamorous growth stock.

(2) American Can — a depression resistant issue.

(3) U. S. Steel—a cyclical issue.

Du Pont book value has grown somewhat faster than the Dow Jones Industrials—as you would expect (about 3 times relative to prewar compared with 2½ times for the average). At the close of this year the du Pont book value should be close to $30 per share.

More spectacular than relative book value growth has been du Pont's increase in the rate of return. From a level of 18% in 1937 the rate of return rose to 28% in the 1949 recession and should approximate 27% this year ex EPT.

Considering du Pont's record and many promising products, 25% of return seems reasonable. (If du Pont's experience is any criterion more companies and analysts might profitably focus attention on the rate of return on capital employed.)

On a $30 book value and 25% rate of return, du Pont earnings should average $7.50 assuming a replacement value of $40 per share and 1939 return of 19% would yield a similar result, with further growth as earnings are retained. Since du Pont has such a five record and excellent prospects, an earnings valuation of 20 times appears warranted. On this basis the stock would be worth 150.

American Can's book value has exceeded the Dow Jones Industrials only slightly. At the close of this year book value of the former should approximate $25 per share.

American Can's return on invested capital tended downward from the prewar to 1949. More recently there have been indications of greater aggressiveness and fewer controls to hamper results. From a 1939 return of 14% the rate dropped during the war but recovered to 15% in 1949. Ex EPT the 1953 rate is estimated at 13% and an average future rate of 14% should reflect the factors mentioned earlier.

With a book value of $25 and 14% rate of return, American Can earnings should average $3.50. (Assuming a replacement cost of $35 per share and 10% return—the 1938 low — would yield the same result.) Again further earnings growth through retained profits seems likely. Using the Dow Jones Industrials multiple of 15 would indicate a fair value of 50 or so for American Can.

U. S. Steel is the most difficult because of the wide fluctuation in earnings and rather indifferent record. Curiously, book value has only doubled since the prewar and about 25% of the increase was a plant revaluation. At the end of 1953 book value should exceed $70 per share.

U. S. Steel's rate of return has varied from minus 3% in 1938 to an estimated 15% ex EPT for 1953. I have assumed an average return of 10% in this round about manner:

U. S. Steel is selling at about $25 per ingot against a replacement cost of some $300 per ingot. A 10% return on new facilities would be $30 per ingot. Present facilities should be sufficiently modern to make half this figure or $15 per ingot. Actually only $5 per ingot or less than 2% on replacement cost would yield the assumed 10% on book. The 1949 rate of return was 9%, fairly encouraging relative to prewar. However, there can be no doubt that cheap as steel stocks appear to be based on replacement cost, they will be no bargain unless the future rate of return substantially exceeds prewar standards. It is my belief that an active economy will provide a favorable background for a more adequate return.

With a $70 book value and 10% rate of return, U. S. Steel earnings should average $7 per share. Here again retained earnings should add to future prospects. Assuming average earnings are worth a multiple of 10, U. S. Steel would seem to be fairly valued at 70.

Granting that these projections are subject to a wide margin of error, there would seem to be considerable cushion against error in present stock prices if your figures even approximate my assumptions. In contrast long-term bond prices would appear to be vulnerable.

Whether or not your conclusions agree with my observations, I hope you will find this approach useful.

From Washington Ahead of the News

By CARLISLE BARGERON

The American Conservative, like the American Indian and the American buffalo is, one might conclude from what is happening these days, by way of becoming extinct. At least, it would seem from the clamor that is arising in the Agricultural Belt and in large segments of industry, that he exists only in the Eisenhower Administration.

Carlisle Bargeron

He was a hardy specimen, this American Conservative, who just as a generation before him went through Prohibition and Bath Tub gin without completely succumbing to its stomach ulcers, survived the era of Roosevelt and Truman and came up on a bright morning last November with his face wreathed in smiles. He has maintained a healthy scorn for the British and French with their increasing dependence upon handouts from the State, either their own or any other State. Private Enterprise, free and unfettered, was the gospel which he sung and abided by.

The gentleman had better look about his own country now to ascertain whether he isn't a relic of the past.

In 1952 the American people elected a President dedicated to the proposition of removing the citizens from the public teat, of eliminating the farmers' dependence upon the Federal Government, the State capitals' dependence upon Washington; they elected a man dedicated to the cessation of the tremendous military and foreign aid spending that was piling up the National debt. They elected a man dedicated to checking the increasing cost of living: the soaring price of beef, of eggs, butter and the other necessities of life; a man dedicated to ending inflation.

Now, because this man has taken steps toward accomplishing these things, the political party of which he is the leader, in the opinion of the majority of Washington political observers, is going to lose the House and likely the Senate, in the Congressional elections next year. There is no minimizing in Washington political circles the seriousness of the overturn in the recent Wisconsin Congressional election, in which a Democrat, for the first time in history won over a Republican, notwithstanding that Republicans in the past have been of the "Progressive stripe."

On every hand, in and out of Washington, this writer hears complaints that Eisenhower and the Republicans are making for hard times. This, notwithstanding that payrolls and employment are at an all-time high. But a few thousand men have been laid off here and there because a military order for planes or artillery or military trucks was cancelled. In a nutshell, the complaint is that not enough government money is being poured out, rather than too much, yet one of the major issues against the former Administration was that it was spending us into bankruptcy.

The greatest alarm, politically, to the present Administration is the excitement in the Farm Belt. Farm prices have fallen; yet one of the things which helped the present Administration to come into power was the high price of foodstuffs, the increasing cost of living. Now, it so happens that the present Secretary of Agriculture has not changed one single farm price support law. He is still buying up eggs, butter, potatoes, wheat and what not under existing price support laws. However, he has said that such a situation, in his opinion, cannot prevail in a free country and that he hopes to work out something by which the farmer will be a free man and not beholdened to the Washington bureaucracy.

It is getting to be quite apparent that he and the Republican Administration have greatly misinterpreted the American farmers' attitude toward Washington bureaucracy. In the past 20 years they have lost that individualism which made them the rugged rock of American Democracy. It seems they have come to be quite as dependent upon the Federal Government as the French "frog" whom American GI's, in World Wars I and II, returned home to laugh smugly about.

But the Republican Administration's problems are not confined to this group. It is finding that American "free enterprisers" in the business and industrial fraternity didn't really mean it when they voted against the "socialist state" and those in Washington who were spending us into ruin. The Administration is encountering from all sides, from our best elements, so to speak, the pressure for continued high government spending: for subsidies, for the military, particularly, the Air Force, and for "economic aid" abroad. From these same quarters is coming the argument that after all, what is wrong with inflation.

All in all, it is making up for a serious dissatisfaction with the incumbent Republicans. And this dissatisfaction, if not remedied, is going to result in the Democrats capturing both the House and the Senate next year which, with the disposition of the President and those closest around him, will to my mind be a political calamity. In my humble opinion, the Conservative school of thought in this country is in an awful fix. Too many Americans of all shades have come to depend upon Federal Government bounty. They have finally caught up with the "decadent" French.

THE MARKET . . . AND YOU

By WALLACE STREETE

In a somewhat quiet and sedate way, stocks continued to forge ahead this week to give a measure of comfort to the bullish contingent. From a technical standpoint little has been proved conclusively, so the argument continues unabated over whether this is a rally in a bear market or the early signs of a new bull swing.

* * *

Actually, time is running out on the bears since the good third quarter earnings statements are starting to pour out and the year-end dividend meetings with the consequent year-end extra payments are close at hand. One of the first to act was General Electric which added a dollar to the regular quarterly for the first time since 1950. The stock responded promptly with a new high which was the highest level at which the stock has sold since 1930.

* * *

Unlike some of its other colleagues in the averages, GE still has a score of points to go to equal the 1929 price ever since described as "fabulous" although roughly half the Dow industrials already have exceeded the equivalent of the 1929 peak. In the select group that has already bettered the famous highs are such as Bethlehem Steel, Chrysler, DuPont, Kodak, General Motors, Johns-Manville, National Distillers, National Steel, Procter & Gamble, Sears, Standards of California and Jersey, Texas Co. and Union Carbide.

* * *

While the market has shown ability to respond to such specific good news, even more attention was being paid to the official statements on the prospects for the future. Flat denials of any signs that business will fall off late this year or early next year were able to impart an even greater lift to the issues involved, with Republic Steel as good an example as any. Official forecasts that earnings next year should be the same as this year lifted this issue several points in a few trading sessions before the scare over price-cutting in the industry chilled the group somewhat.

* * *

The scare centered on National Steel's subsidiary, Great Lakes Steel Corp., largely because of some reductions in special materials announced quietly to the trade. This news burgeoned into a rumor that the standard run of items was being trimmed. The inference, of course, was that the steelmakers were finding it hard to move their production. The company promptly denied any general price-cutting but the steel shares' buoyancy was a bit tainted by then.

* * *

Still the Skeptical Shorts

Although the rally so far has retraced two-thirds of the decline from the August highs to the September low, there is still plenty of skepticism around which was reflected in the issues where short selling predominated. The mid-month report showed sizable increases in the shorts in such stalwarts as General Electric where the interest jumped 13,000 shares; DuPont, Republic Steel, Radio, Chrysler and American Can. The overall rise was a quarter million shares to bring the short interest back above the two-million share mark at 2,188,398. There was a time when the old axiom that the shorts were always wrong was an operating guide, but lately the shorts have achieved a more loftly stature, at least as far as the attention paid to their maneuvers is concerned.

* * *

As a measure of the pessimism around, the October figures show more dour feelings than at any time in a year and a half, the last higher aggregate being the 2,478,000 shares short in Feb. 1952. And the list of issues "shorted" expanded significantly to 922 from 896 a month earlier.

* * *

Another bit of official statistical work that is a bit dated at the moment but a fair measure of what has taken place is the average price of all stocks on the Stock Exchange which, at $38.20 at the end of September, was the lowest in almost three years. This is just that much more grist for those who find stock averages inefficient as an overall barometer, particularly since the averages presented a far more optimistic picture at the same time.

* * *

The Still Laggard Rails

Rails are still the laggards tempering what optimism is around. They stubbornly resist rallies and are quick to find excuses for a selloff. In this they only outpace the oils by a narrow margin since petroleum issues have been rather persistently on the disappointing side, too.

At least one issue, immune to all that is around, seems to be American Telephone which continued to work higher and this week reached a recovery high. The weight of all the postwar financing via convertible debentures has kept the issue from even approaching its 1946 high of 200, and it is another of the index issues still well below its 1929 peak which was more than 300.

* * *

"War" Stocks Keep Going

Also able to work into higher ground with some regularity were the so-called "war" stocks—the plane makers. Douglas and Boeing vied for leadership in this group and, despite evidence of considerable profit-taking now and then, were able to keep their independent rally going.

* * *

With a majority of the issues now back in middle ground, the daily lists of new highs and new lows contracted rather sharply. The implications to be derived from this tabulation are on the favorable side because after many sessions with lows predominating, this week's trading was able to put a couple of days back to back with the highs leading the lows by good margins. It hasn't been since early in August that such a feat has been possible.

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New-Low and New-High Repeaters

Rather prominent repeaters among the new lows were U. S. Hoffman Machinery and Grayson-Robinson Stores. For U. S. Hoffman it is, at least temporarily, the end of a saga such as the issue went through in the 1946 bull swing when it climbed to a loftly 47, only to drop drastically to as low as 6⅝ in 1949. In this latest swing it climbed to a top of 27 and now is back down to 17. The Grayson story is somewhat different since it never was able to show any extreme improvement after slumping from the 1946 peak of 37. Its recent new low of 10 is only about a point above low for the last half dozen years.

* * *

A rather quiet repeater among the new highs has been Sutherland Paper which suddenly came to life to reach an all-time high and furnish a feature for what has been a rather neglected end of the list.

[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.]

Dealer-Broker Investment Recommendations & Literature

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

E. P. T. Elimination—Over-the-counter securities likely to benefit—Troster, Singer & Co., 74 Trinity Place, N. Y. 6, N. Y.

Favored Stocks of the Pension Funds—Data on **Corning Glass Works, Corn Products Refining Co., E. I. du Pont de Nemours & Co., General Electric Company, General Foods Corporation, Minneapolis-Honeywell Regulator Company, Minnesota Mining & Manufacturing Company, National Lead Company, Chas. Pfizer & Company, Procter & Gamble, Scott Paper Company,** and **Union Carbide & Carbon Corp.**—Eastman, Dillon & Co., 15 Broad Street, New York 4, N. Y.

Insurance Stocks—Analysis—White & Company, Mississippi Valley Building, St. Louis 1, Mo.

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

Japanese Electric Power Companies—Brief analysis in current issue of "Weekly Stock Bulletin"—The Nikko Securities Co., Ltd., 4, 1-chome, Marunouchi, Chiyoda-ku, Tokyo, Japan.

New York City Bank Stocks—Comparative figures at Sept. 30, 1953—The First Boston Corporation, 100 Broadway, New York 5, N. Y.

New York City Bank Stocks—Comparison and analysis of 17 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.

Railroad Earnings—Bulletin (No. 145)—Smith, Barney & Co., 14 Wall Street, New York 5, N. Y.

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Audio Devices, Inc.—Analysis—Peter Morgan & Co., 31 Nassau Street, New York 5, N. Y.

Boston & Maine—Memorandum—Herzfeld & Stern, 30 Broad Street, New York 4, N. Y.

Carrier Corp.—Memorandum—David A. Noyes & Co., 208 South La Salle Street, Chicago 4, Ill. Also available is a memorandum on **International Cellucotton Products Co.**

Cinerama, Inc.—Bulletin—E. M. North Co., Inc., 42 Broadway, New York 4, N. Y.

Greenriver Steel Corp.—Memorandum—Clark, Landstreet & Kirkpatrick, 315 Fourth Avenue, North, Nashville 3, Tenn.

Guardian Chemical Corporation—Report—Batkin & Co., 30 Broad Street, New York 4, N. Y.

International Harvester Company — Analysis — Stanley Heller & Co., 30 Pine Street, New York 5, N. Y.

Kennametal Inc. — Memorandum — Moore, Leonard & Lynch, 1003 Union Trust Building, Pittsburgh 19, Pa.

Metal & Thermit Corporation—Analysis—New York Hanseatic Corporation, 120 Broadway, New York 5, N. Y.

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

National Steel Corp.—Memorandum—Emanuel, Deetjen & Co., 120 Broadway, New York 5, N. Y.

North American Cement Corporation—Report—Daniel F. Rice & Company, 141 West Jackson Boulevard, Chicago 4, Ill.

Otis Elevator—Brief analysis in current issue of "Gleanings"—Francis I. du Pont & Co., 1 Wall Street, New York 5, N. Y. In the same issue are an analysis of **White Motor Co.** and a list of specialized **Portfolios.** Also available is a list of selected equities now selling at discounts from their tops of the past three years.

Plomb Tool Co.—Memorandum—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

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

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

Southern Railway Company—Analysis—McGinnis & Company, 61 Broadway, New York 6, N. Y.

Taylor, Pearson and Carson (Canada) Limited — Review — James Richardson & Sons, 173 Portage Avenue, East, Winnipeg, Canada, and Royal Bank Building, Toronto, Canada.

Technicolor, Inc.—Memorandum—Hirsch & Co., 25 Broad St., New York 4, N. Y.

Texas Utilities Co. — Memorandum — Josephthal & Co., 120 Broadway, New York 5, N. Y.

Ventures Ltd.—Data—Joseph Faroll & Co., 29 Broadway, New York 6, N. Y.

Virginia Iron, Coal & Coke — Analytical brochure — Reich & Co., 39 Broadway, New York 5, N. Y.

How to Get the Maximum "After-Tax" Yield on Bonds

By L. WILLIAM SEIDMAN, C.P.A.
Seidman & Seidman, Public Accountants

A Certified Public Accountant discusses the after-tax yield on bonds selling at a discount or at a premium. Shows tax laws treat these elements differently, and cites illustrations of application of the laws. Concludes, other things being equal, there is an advantage in buying taxable bonds at a discount, while there is an advantage in buying tax-exempt bonds at par or at a premium.

Bonds selling in the market for the same interest yield can have radically different after-tax yield, depending on whether the bonds are selling at par, at a discount, or at a premium. That is because market yield combines the interest coupon with the discount or premium involved. The tax laws, however, separate those elements and treat them differently.


L. William Seidman

The rules involved are simple and lend themselves best to illustration. Suppose Company A has three bonds outstanding. They all mature at the same time and they are all selling to yield 5% interest to maturity. One has a 5% coupon and is, therefore, selling at par. One has a 4% coupon and is selling at 90. The third has a 6% coupon and is selling at 110. Which gives the best tax break?

If the bond with the 5% coupon, selling at par, is bought the 5% interest will be received each year and taxed as regular income. If the bond with the 4% coupon, selling at 90, is bought the yield is the same 5%, but only the 4% coupon is taxed as interest from year to year. The other 1% of the yield comes as a capital gain when the bond is paid off at par at maturity, and the bondholder cashes in on the ten-point discount.

In other words, by buying the bond at a discount there is a double benefit. First, the year-to-year tax payment is made on only 4% instead of a 5% coupon, the other 1% being deferred until maturity. Second, when the time does roll around to pay the tax on the other 1%, the rate is the capital gain rate which is a top of 26% and not the regular income tax rate, which has a top of 92%.

What happens if the bond with the 6% coupon, selling at 110, is bought? The buyer can handle it in his income tax return in one of two ways. One way is to treat it as if he bought a 5% bond at par. This is worked out by spreading the ten-point premium over the remaining life of the bond, and each year offsetting a pro rata part of the premium against the 6% interest coupon. This brings to 5% the net interest to be reported. The cost of the bond is marked down accordingly. If the bond buyer decides to do it that way, he must, for the rest of time, follow the same pattern for all bonds bought at a premium.

The other route he can take is the converse of what happens with bonds bought at a discount. That is to say, he reports the 6% coupon as interest each year and then at maturity he takes a loss of the ten-point premium. This will be a capital loss with limited deductibility and hence limited tax benefit. Reporting this way is generally a disadvantage because it means high interest income during the life of the bond, taxable at full rates, with a deduction in the final year that may be of doubtful or restrained tax value.

We have been using round amounts for discount and premium. A more accurate bit of arithmetic is desirable. Suppose the buyer is in the 50% tax bracket. (That bracket is reached by a married man with $28,000 of income.) He buys $10,000 face amount of bonds that have a remaining life of ten years. Suppose also that a 5% bond sells at par, so that bonds will coupon rate less than that sell at a discount, and above that at a premium. Here are the figures for the net return, after taxes, at the different coupon rates:

	Coupon Rate 3%	4%	5%	6%
Price of bond to yield 5% interest return to maturity	$8,667	$9,333	$10,000	$10,667
*Aggregate net return after taxes for ten-year period	2,487	2,494	2,500	2,666
Annual rate of return after taxes in relation to purchase price of bond	2.9%	2.7%	2.5%	2.5%

*This is the combination of what remains of the total interest for the ten years after deducting 50% taxes and also, after deducting, in the case of bonds bought at a premium, 50% of the premium. In the case of bonds bought at a discount, 74% of the discount has been added to the net return. The 74% is the amount of the discount, less 26% capital gain tax due when the bond is paid off at par.

In other words, the same market yield can be stepped up to an after-tax yield of from 2.5% to 2.9% in the case illustrated merely by buying the discount bond instead of the par or premium bond.

In the illustration, it has been assumed that the bonds were held to maturity and collected at par. The same principles apply if the bonds are sold before maturity or if the bonds are called before maturity or if the call or maturity price is other than par.

A special rule exists in respect to the discount on bonds like the Series E government bonds. The discount on those bonds is, by express provision of law, treated as interest income, not capital gain, when the bonds are collected at maturity or earlier redemption. The government seems to be heading in the direction of applying the Series E rule to all bonds issued without interest, and sold at a discount to make up for the absence of interest. However, in one case where other than Series E bonds were involved, the court held that the increment on redemption compared with issue price of a noninterest bearing bond is capital gain to the bondholder and not interest income.

There is also a special rule on Series G and K bonds. When an owner cashes them in before maturity, he gets less than he paid for them. The difference is treated as an interest deduction, not a capital loss.

So far, we have been dealing only with taxable bonds. The picture is almost the opposite with tax-exempt bonds. Whereas with taxable bonds, the bonds selling at a discount have extra attraction, in the case of tax-exempt bonds it is a good thing, from a tax standpoint, to stay away from bonds selling at a discount. That is because in tax-exempt bonds the more that is treated as tax-exempt interest and the less that is taxed as capital gain, the better.

For example, a 3% tax-exempt bond at par involves no tax from the time of purchase to the time through maturity. However, a 2% bond selling at a discount in order to yield 3%, means 2% tax-free interest and 1% capital gain. In other words, part of the 3% return must be given up in tax, whereas with the par bond no part of the 3% yield must be paid out for taxes.

There is an important exception on tax-exempt bonds selling at a discount. If the bonds were initially sold at a discount when first issued by the city, state, etc., that discount, spread over the life of the bond, is considered as additional interest. Only the discount in excess of that amount is capital gain when the bond is sold or cashed in at maturity.

Tax-exempt bonds selling at a premium work out just like bonds selling at par. That is because a pro rata part of the premium must be written off each year and the cost of the bond marked down accordingly. There is no option about this; it is mandatory.

Again, actual arithmetic may point the situation up more forcefully. Here is the same type of example as before, except that now we have a ten-year tax-exempt bond where a 3% interest yield sells at par. The figures for a person in the 50% tax bracket work out as follows:

	Coupon Rate 1%	2%	3%	4%
Price of bond to yield 3% interest return to maturity	$8,462	$9,231	$10,000	$10,769
*Aggregate net return after taxes for ten-year period	2,138	2,569	3,000	3,231
Annual rate of return after taxes in relation to purchase price of bond	2.5%	2.8%	3.0%	3.0%

*This is the combination of the total interest for the ten years, less, in the case of bonds bought at a premium, the amount of the premium. In the case of bonds bought at a discount, 74% of the discount has been added to the net return.

In other words, a tax-exempt bond selling at a discount can materially cut into the after-tax yield compared with a bond selling at par or a premium though both bonds carry the same market yield.

To summarize, the tax picture is as follows: All other things being equal—

(1) There is an advantage in buying taxable bonds at a discount instead of at par or at premium;

(2) There is an advantage in buying tax-exempt bonds at par or at premium instead of at a discount.

La Salle Securities Formed in Chicago

CHICAGO, Ill.—La Salle Securities Co. has been formed with officers at 208 South La Salle Street to conduct an investment business, specializing in unlisted securities.

Officers of the new firm are Laurence H. Norton, President; Charles J. Vojta, Executive Vice-President and Treasurer; James L. Knight, James H. Musson and Raymond W. Young, Vice-Presidents; and Mildred Vrba, Secretary. All have been associated for some years with Remer, Mitchell & Reitzel, Inc.

William J. Kearns, Philip Kaufman and Adolph Zarbock will also be associated with the new firm.

Boston Investment Club to Hear on Nov. 2

BOSTON, Mass.—The next dinner meeting of the Boston Investment Club will be held on Monday, Nov. 2, at 5 p.m. at the Boston Yacht Club. Principal speaker will be Albert F. Tegen, President of General Public Utilities Corporation. His subject will be "Current Outlook for Utility Stocks."

Joins King Merritt Co.

(Special to The Financial Chronicle)

DENVER, Colo. — Terry S. Roberts has been added to the staff of King Merritt & Co., Inc., U. S. National Bank Building.

J. K. Mullen Adds

(Special to The Financial Chronicle)

DENVER, Colo. — Robert J. Dunnebecke is with J. K. Mullen Investment Co., U. S. National Bank Building.

LETTER TO THE EDITOR:

Finds Criteria for Rating Investment Funds Questionable

Henry D. Steinmetz, of Burton, Cluett & Dana, Members of the New York Stock Exchange, reviews standards for rating set down by Homer Fahrner in the Second Section of the "Chronicle" of October 8.

Editor: Commercial and Financial Chronicle:

May I arch an eyebrow or two over "Which Investment Fund to Buy?" appearing in the second section of the October 8th issue of the "Chronicle"? The article sets up six standards of judgment for rating the managements of balanced mutual funds. Several of these criteria, it seems to me, are open to serious question.

First off, the author advises us to stack up the leading funds against each other, strictly on their over-all records. Yet he makes no mention of their varying investment aims, the different shadings of emphasis that these funds place on income, capital preservation, and capital gains. How can you judge the marksmen without considering the various sizes and kinds of targets they're shooting at?

Wrong Yardstick

Second, we're told to measure each fund's asset-value performance (allowing for capital-gains distributions) against the performance of the Dow-Jones industrial stock average over a couple of full-cycle market periods — e.g., 1942 to 1949, 1946 to 1953. "Obviously," says the article, "if [the fund] has outperformed Dow-Jones, it shows that the management has at least done as well as a buy-and-hold policy would have accomplished for the investor."

I'll skip the statistical sins of the Dow-Jones industrial average; a definitive job on the subject was done last year ("Chronicle," May 8, 1952) by Harry Comer, of Paine, Webber, Jackson & Curtis. Of even more questionable virtue, in my opinion, is the idea of comparing the performance of a conservative balanced fund (bonds, preferreds, commons; industrials, rails, utilities) with that of a group of industrial common stocks.

The fact is, I think, that the investor who buys into a balanced fund—assuming he knows what he's doing—isn't trying to "beat" the Dow-Jones industrials or any other stock average, either in long-term gains or in near-term yield. His objectives, like those of the fund, are more conservative.

No Miracle Managements

Next the author tells us what proportion of its portfolio a well-managed balanced fund should have had in common stocks at the market's major turning points. In 1942, for instance, it "might have been expected to have more than 75% . . . in common stocks." In 1946, "less than 25%." In mid-1949, "at least 60%." In early 1953, "less than 30%."

Offhand, I don't know of any fund that has even come close to meeting these specifications. None of them claims divine guidance. Wellington Fund, certainly one of the better-managed companies in the balanced field, had 69% in commons in 1942, 45% in 1946, 58% in mid-1949, and 63% early this year. For Commonwealth Investment Company, another well-regarded outfit, the record runs thus: 1942, 71%; 1946, 65%; 1949, 59%; early 1953, 63%.

The *kind* of common stocks held at critical market points is nearly as important as the percentages. For example, both Wellington and Commonwealth were shifting from cyclical issues to the more stable kind all through 1952, without much change in their common-stock ratios. Further, a more probing analysis of portfolio maneuvers would consider not only the percentages in commons, but in equity-type bonds and preferreds.

The Capital-Gains Poser

The author urges us also to keep a sharp eye on capital-gains distributions in relation to investment-income dividends. There should be "little or no capital-gains dividends" in a major bear market, he says, and such distributions should be "only slight" in the early phases of a bull market. "But in the final stage of a bull market, the capital gains dividends may well be expected to exceed the regular dividends perhaps in the ratio of four to one."

With some reservations — especially about that ratio — the above is generally true, though ordinarily truer of a stock fund than of a balanced fund, because a balanced fund, with its greater emphasis on conservatism and stability, is much less apt to cash in its capital gains all in a bundle at the top of a market cycle, even if it thinks it recognizes the top.

Moreover, the amount of gains it does at such a time can be controlled for accounting purposes at the end of the year by the method it uses in establishing the cost of the stocks it has sold (having previously acquired most of these issue at scaled prices). If the use of average cost would mean larger gains for the year than the fund's management thinks good for the shareholders (as a practical tax matter, it must distribute to shareholders all such realized gains), it may identify certificates of above-average cost, thus holding down the year's total of realized gains. The idea, of course, is to hold back some gains (on lower-cost certificates) to distribute to shareholders in less palmy times —when they're more likely to need the money.

Highbrow Hassle

True, mutual fund managers are sharply divided on the propriety of this. An opposing school (mostly representing stock funds) contends that any fund, stock or balanced, should realize and distribute its gains at their maximum, so far as possible. To hold onto some of them at diminishing values, this group argues, and more particularly to distribute them in a way that gives them the continuity and color of income, is unsound practice.

But a practice it is, among a number of leading balanced funds, which argue just as devoutly for their viewpoint, and the situation as it exists should be understood by anyone studying their portfolio work.

About that four-to-one ratio (capital-gains to income) in a late bull market, it hardly squares with the facts of life among the funds themselves. Of the country's six biggest balanced funds, controlling the bulk of assets of all balanced funds, only three paid larger capital-gains distributions than income dividends in 1946, the last year of the wartime bull market. And the highest gain/income ratio among these was only 1.65/1 (for Wellington). In 1952, the last year of the Korean market, only one of the group (Boston Fund) paid more gains than income (1.59/1). The balanced fund paying four-to-one in capital gains in *any* year is a rare bird—if not actually extinct.

No Run on the Funds

"Obviously," says the author, near the close of his article, "the smart management will take some very substantial profits in the last phase of each bull market, to be in a position to replace these stocks at much lower prices . . . as well as to meet the demands of its own withdrawing shareholders who may be expected to liquidate in any panicky bear market."

I doubt if any leading fund has ever had to sell a single portfolio security to finance its own share redemptions. All funds maintain a cash cushion for this purpose at all times. The notion that redemptions soar in bear markets has been disproved time and again—in 1929-32, 1937-38, 1946-49, and currently. As far back as the figures go—to 1927, with a short gap in the late 1930's—there has never been a six-month period in which mutual-fund share redemptions have exceeded new share sales.

Very truly yours,
HENRY D. STEINMETZ

Editorial Note: The writer is a registered representative of the New York Stock Exchange firm of Burton, Cluett & Dana. He has made mutual investment companies a field of special study and interest.

$50,000,000 Debs. of Province of Ontario Offered to Investors

A syndicate managed jointly by Harriman Ripley & Co., Incorporated and Wood, Gundy & Co., Inc. is offering $50,000,000 Province of Ontario, Canada, 25-year 3⅝% debentures due Nov. 1, 1978, at 98.78% and accrued interest.

Proceeds from the sale of the debentures will be advanced by the Province of Ontario to The Hydro-Electric Power Commission of Ontario which will use the funds to pay for a part of its capital construction program and to repay any temporary loans incurred for capital or other purposes that may be outstanding on the date of the advance. The Commission estimates the cost of its construction program will total approximately $191,000,000 for 1953 and about $146,500,000 for 1954, exclusive of any St. Lawrence River Power Project costs.

Principal and interest on the debentures will be payable in currency of the United States and will be free of all present and future taxes, including income taxes and succession duties, imposed by the Province of Ontario or such taxes imposed by the Canadian Government, provided that the owners of the debentures are not residents of Canada.

The debentures will constitute direct obligations of the Province of Ontario and will be redeemable at the option of the Province at any time on and after Nov. 1, 1958, at prices ranging from 101½% to 100%, plus accrued interest.

Ontario is the second largest of the Canadian provinces, covering approximately 412,000 square miles, of which about 88% is land area. Estimated population of the Province on June 1, 1953, was 4,897,000, representing 33.1% of the total population of Canada. Net direct debt of the Province on Aug. 31, 1953 amounted to $635,458,123.

Other members of the offering group are: Smith, Barney & Co.; The First Boston Corporation; A. E. Ames & Co., Incorporated; The Dominion Securities Corporation; and McLeod, Young, Weir, Incorporated.

Price-Fixing by Syndicate Upheld

Judge Harold R. Medina, in an *obiter dictum* opinion, supports present practice in underwriting securities, and says any ban on it should be by legislative and not by court action.

Federal Judge Harold R. Medina on Oct. 15 released his 115,000-word opinion giving reasons for dismissing the Federal Government's anti-trust suit begun more than three years ago against the nation's leading investment bankers. The written opinion covers all phases of securities syndicate operations, and in an *obiter dictum*, the Judge upheld the practice of syndicates in fixing the price of new issues of securities offered to the public—a phrase of the anti-trust suit which had already been dismissed during the trial proceedings.

Concerning price-fixing in syndicate agreements, Judge Medina states:

"Despite all the general condemnation of price-fixing, I find nothing in any of these cases which can be regarded as controlling precedent here or which binds me to hold the clauses of these syndicate agreements now under attack to be illegal *per se* under the Sherman Act. . . .

"Those who participate as underwriters or dealers are in no sense competitors. When we speak of competitors nothing but confusion will follow unless we first determine what is the 'it' for which the competitors are supposed to be competing. Perhaps a few months before the issue under discussion some of the participants were engaged in the underwriting and distribution of a quite different issue of securities, and others of another. But that can have nothing to do with the issue we are talking about. If, as is certainly the case, these participants and dealers are banded together in the enterprise of underwriting and distributing a particular issue, then by very definition they cannot be competitors. The necessary relation that each bears to the issuer makes it clear than they do not and cannot enter the syndicate as competitors, despite the fact that occasionally representatives or agents of one or two of the firms in the team may try to sell the bonds or stocks to the same customer.

"Furthermore, the syndicate system has no effect whatever on general market prices, nor do the participating underwriters and dealers intend it to have any. On the contrary, it is the general market prices of securities of comparable rating and quality which control the public offering price, as explained in the preliminary part of this opinion. Whether by bringing out one issue or many, none of these defendants nor any group of them acting together, have ever, so far as appears in this record, been so foolhardy as to attempt to control or in any manner affect general price levels in the securities market.

"According to plaintiff's claim, the purchase of a security issue from an issuer and its distribution to the public via underwriters and dealers is just the old story of a purchase and resale of commodities or a manufacturer's product with the well-worn scheme of price restrictions all down the line. But is it? In reality the investor either lends money to the issuer, if the issue consists of bonds or debentures, or he makes a continuing investment in the issuer's capital, if the issue is preferred or common stock. The document in the form of a bond or stock certificate, which is 'sold' and delivered to the investor, is merely evidence of a relationship which is created, and the relationship survives loss or destruction of the document. . . .

"It matters not whether the members of the team be called 'partners,' 'quasi-partners,' 'joint adventurers' or what not; the significant fact *vis-a-vis* the Sherman Act is that they are acting together in a single, integrated, unitary, cooperative enterprise, the purpose of which is not 'raising, fixing, pegging, or stabilizing the price' of anything, nor the exercise of any manner of control over general market prices, but solely the distribution of a new security issue in an orderly manner. . . .

"It is upon the basis of these facts, peculiar to the business of raising new capital for issuers, whether by syndicates of underwriters proceeding in negotiated transactions or by public sealed bidding, that the Congress and the SEC evidently arrived at the same conclusion that I arrive at, namely, that the fixed-price type of public offering of new securities viewed in the large, and on the basis of methods now in common use by the investment banking industry, gives no offense to the Sherman Act. . . .

"One of the embarrassments under which counsel for the government have been laboring is that they insist that the provisions of the various Acts of Congress, and the various rulings of the SEC in administering these Acts, are in every way lawful and in strict accordance with the letter and spirit of the Sherman Act, whilst at the same time declaring that the basic clauses of the syndicate system constitute *per se* violations of the Sherman Act. The plain truth of the matter is that the legal questions now under discussion form an area of head-on collision between the SEC on the one hand and the Anti-trust Division of the Department of Justice on the other. . . .

"It must be borne in mind that this whole statutory scheme was worked out with the greatest care by members of the Congress thoroughly aware of anti-trust problems, often in close contact and cooperation with those who were later to administer the intricate phases of this well articulated and comprehensive plan of regulation of the securities business, and in possession of the fruits of many prolonged and penetrating investigations. They intended no exemption to the Sherman Act; and it is hardly probable that they would inadvertently accomplish such a result. The real point is that all those who worked together on the formulation of this most significant and beneficial legislation went about their task of integrating into the statutory pattern the current modes of bringing out new security issues then in common use by investment bankers generally, with complete assurance that no violation of the Sherman Act was even remotely involved. . . ."

Joins Sills, Fairman

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Philip S. Adams has become connected with Sills, Fairman & Harris, Inc., 209 South La Salle Street, members of the Midwest Stock Exchange.

Uhlmann & Benjamin

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—John W. Bell is now with Uhlmann & Benjamin, Board of Trade Building, members of the Midwest Stock Exchange.

With Bache & Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—Ralph J. Fishman has become affiliated with Bache & Co., 21 Congress Street.

The Recession in General Business

How Far? How Long? What Will the Administration Do About It?

By A. W. ZELOMEK*
Economist, International Statistical Bureau, Inc.

Mr. Zelomek maintains while business will worsen further, it will start to improve during latter part of 1954. Predicts activity will be restimulated not only be reversal of deteriorating economic factors, but also by government aid in form of basic credit easing, drawing on huge reservoir of public construction projects, reduction of corporation tax rates, and acceleration of defense orders. Expects 1954 business to be only slightly lower than 1953, but higher than 1952 or 1951.

I wholeheartedly believe it to be true that we are not now heading into a major depression. The question then is: where are we now, and where will we go? There are many terms in circulation today which attempt to answer this question.


A. W. Zelomek

For my own amusement, I've compiled a list of some of them, and I'm sure you could add to that list: Depression; recession; maladjustment; decline; leveling out; readjustment; business correction; deflation; setback; interrupted boom; bust; cyclical downswing; downcurve; sinking spell; liquidation, and so on.

Rather than use any of these or similar terms, I'd like to state the case simply and then give some supporting arguments:

Business Will Improve in Late 1954

Business is not as good as it has been; it's going to get somewhat worse; and most important of all, it's going to get better again. Furthermore, improvement will probably start during the latter part of 1954.

Before we take a look at what can be expected to happen during the coming months, it's necessary to examine what has brought us to the point where lowered business levels have come to be taken for granted.

It is impossible to cite one factor and say: "that's it." But it is possible to pick out the key factor among the many. That key factor is the tremendously high production level of the past few years, coupled with an increasingly rigid price structure.

In the period from the end of World War II to the beginning of the Korean War, this country had seen a great expansion of plant and equipment, and had just about adjusted itself to that new high level when the Korean War began.

During the Korean War period, and actually still continuing, earlier production levels were discarded, and great new highs in production were aimed for. And in the main, they were achieved.

The advances in capacity and in production were great enough that in spite of material shortages, allocations, etc., the country's industrial plant was able to produce high levels of consumers' goods as well as of defense goods. Thus, it was in 1951 that the peak in homebuilding was seen, in terms of actual physical units.

As defense needs were met, and with the ending of the Korean War, much of the increase in productive capacity could be turned to civilian use. A steel ingot is neither defense nor consumer raw material; it can become any steel product.

Recent Cutbacks

In the past few months, an increasing number of industries have found it necessary to cutback output, either through actual layoffs, elimination of overtime, etc. Among these have been automobiles, appliances and TV, farm machinery, metal mining, etc. And these cutbacks are not limited to non-durable goods, although production declines in that area will be less sharp.

Do the farmers have all the machinery required? Are consumers saturated with appliances and TV sets? Obviously, the answer is no. But they cannot absorb our productive capacity at current price levels.

The price level in general will show little movement, since it is based on a relatively rigid wage structure. In some industries, ultimate prices are partially determined by payroll padding, featherbedding prices, etc.

The rigidity of the price structure is seen in the fact that price-cutting, which is the usual first step in adjusting production and sales, has not been seen to any major extent (look at automobiles for example). Rather, it is production cutbacks that are being seen.

Although I have pointed out that the production area is key to the current picture, there are other factors of great importance; in fact, if they were absent, the production factor would be much less important.

(1) Declines in farm income, based mainly on a lower level of farm prices, a trend which has been steady through most of the years.

(2) Lowered levels of defense orders, even though total spending for defense will be higher this fiscal year than last.

(3) The beginning of a decline in spending on new plant and equipment.

(4) A very tight money situation.

(5) Some weakening of consumer confidence.

There are other factors which could be cited, but these are among the most important, especially in that they affect the largest number of industries.

The full effect of these factors has not yet been felt.

Consequently, I look for a continuation of the downward movement of business activity to take place well into 1954.

Production Declines

The most outstanding evidence of business declines will be seen in the production area. Even now, the decline from the high point in industrial production which took place last March is a relatively limited one.

The production decline will continue until a point about 10% below the March peak will be reached, with durable goods output continuing to carry the brunt of the the decline.

During this same period, you will see more inventory liquidation, with durable goods again showing the larger movement.

As a corollary, employment levels will be somewhat lower, as more layoffs take place. Where actual layoffs are not seen, there will be elimination of overtime, extra shifts, etc., in many cases.

Directly, this is going to affect income payments, and in the last analysis, consumer spending.

Once this chain reaction has gone to its limit, consumer confidence is going to be somewhat shaken; the result is likely to be more reluctance to spend than is warranted. . . .

There are many people who will agree with what I have said up to now; but on the question of how much further the declines can go, and how long it will take before business gets better, there are sharp disagreements.

Various economic indicators are going to show important degrees of difference during the coming months; but in general, I think business planning on the basis of declines of 10% to 15% as the outside limit is justified.

Let's take industrial production as a case in point.

Production Index Will Hit 220

In a few months, industrial production as measured by the Federal Reserve Board will sink as low as 220 (1935-39=100); the year's high was 243 on that index.

That's a decline of 23 points; percentagewise, it's only 10% from the peak, and well above pre-Korea levels. And I'd like to emphasize that one point; it's a decline from the peak.

We have become so accustomed to seeing new records being created that we tend to lose a little of our business perspective; and a decline such as I've outlined is considerably less disturbing than if it were to take place from only a moderate level of activities.

Now, it's true that some industries will experience a level of operations that is more than 10% or so from the peak; that's going to be true of the steel industry, for example. But other industries will decline less, so that on balance, the downward movements will stay within limits.

As a matter of fact, the steel industry happens to be a very good example of why I believe the decline will not carry too far, and why recovery will take place.

That industry has seen tremendous expansion in the past years. As demand declines somewhat, the older and less economic units will be the first to be retired; overtime payments will be cut, and so on. Thus, when this process is completed, the break-even point of the industry will be lower than has been the case for some time.

Another factor that will prevent movement to constantly lower levels is the question of prices. Thus, when I speak of declines of 10% or so, this does **not** apply to the wholesale price level. And that is important to the outlook.

Prices, which advanced sharply after the beginning of the Korean War, have lost a good part of that advance; in some cases, there has actually been too much correction, and higher prices are called for. And as I pointed out earlier, wage cost rigidity will maintain the price level until means are found to lower wage costs.

Because of this situation, and because over-building of inventories has not taken place on the highly excessive basis seen in earlier periods, we are not going to see a wave of sharp inventory liquidation, either in terms of prices or physical volume.

Easing of Money

In the various money markets, the very tight situation that has been seen for a good part of this year is definitely easing; a slight shrinkage in interest rates is the key indicator of this.

Also in relation to the money question, the fact that the Excess Profits Tax will go out of existence as of Jan. 1, is a very positive factor in the business outlook.

Not only will its elimination help the corporate earnings position, but it will mean less of a drain on corporate financial reserves. This means that they will have less of a need for outside borrowing, and it will also act as a stimulus to plant expansion and modernization.

Also in connection with taxes, the individual consumer will get a saving next year that will help to offset lowered income levels.

As of Jan. 1, individual income taxes will be cut 10%; over the year as a whole, that will add $2 billion to $3 billion to consumers' disposable income.

What these various factors add up to is the fact that there is considerable strength in the economy, enough to absorb some business decline and then to turn those declines around.

Some Conclusions

I'd like to wrap up my conclusions as far as I've gone as follows:

During 1953, economic activity was on the way up during the first half, and began to move down in the second half. Total activity for the year will prove to have been above that of 1952.

During 1954, economic activity will be on the way down during the first half of the year, and will show upward movements during the second half of the year. For the year as a whole, activity will be somewhat under that of 1953, but at very good levels.

Up to this point in our discussion, I've very carefully limited my remarks to what you might call internal factors in the business picture. Or, to put it another way, I've tried to steer clear of the relationship between government policies and business activity.

I've done this, since it's important to see the basic strength of the economy in its normal workings; and that picture is a generally healthy one.

For a whole variety of reasons, any given Administration has an important stake in the economic health of the country. It is no exaggeration to say that it never has been more important than now.

With the tremendous responsibility for the free world that rests upon the shoulders of this

Continued on page 20

*A talk by Mr. Zelomek before the Milwaukee Association of Purchasing Agents, Milwaukee, Wisc., Oct. 13, 1953.

Background and Future Forecast Of Canadian Oil Stocks

By E. S. MILES*

Director, Burns Bros. & Denton, Ltd., Toronto, Ont.

Mr. Miles gives an outline picture of the progress of Canada's oil and gas industry, and lists short-term and long-term factors in portraying its future. Looks for Canada to become a net exporter of oil, with U. S. as her most probable market. Gives forecast over next 12 months of action of the Toronto Stock Exchange Index of 15 Canadian oils, and concludes individual oil and gas company's stocks are likely to move more independently of each other in future than in past.

It is usual at these meetings in attempting to forecast the probable future course of the various stock averages to provide a set of economic arguments to explain the forecaster's conclusions. Tonight I feel that had I spent the past 10 years studying applied psychology instead of economics I might stand a better chance of being correct on my conclusions. However, notwithstanding the fact that public psychology may have a considerable bearing on the movement of stock prices—including the Canadian western oils —I think you will all agree that in the long run the economics of the situation will be the ultimate determining factor in setting security prices. Accordingly, a brief review of the background of the Canadian oil scene is perhaps in order.

E. S. Miles

Canada's Record Since Leduc

I know that all of you here are quite familiar with the tremendous strides which Canada has taken in the oil business since the discovery of Leduc in February, 1947. Let us look at that record in comparison with that of our neighbor, the United States.

In Western Canada during the six year period 1947-52 a total of 6,430 wells (including development and dry holes) were drilled. These wells turned up some 2 billion bbls. of crude oil reserves —or the equivalent of approximately 1 million bbls. for each 3.2 wells completed.

In the United States during the same period a total of 245,543 wells (including development and dry holes) were drilled. These wells discovered an estimated 19 billion bbls. of crude oil reserves —or the equivalent of approximately 1 million bbls. for each 12.8 wells completed.

Similarly during the 1947-52 period it required the drilling of something like 12,880 feet to add each 1 million bbls. of Western Canadian oil reserves. By comparison in the United States it required in the neighborhood of 47,790 feet of drilling to establish each 1 million bbls. of reserves.

Accordingly, by comparison with the United States, over the above-mentioned period the record would seem to indicate that Western Canada is about four times as attractive an area in which to search for oil.

Short-Term Factors in the World Oil Picture

During 1952, despite almost the complete loss of Iranian oil, world oil production exceeded 4.5 billion bbls., or 12.3 million bbls. daily. This represented an increase of nearly 5% over 1952 and more than 18% over 1951. 1953 figures are expected to exceed those of 1952—still excluding Iranian production. Although many areas contributed to this increase the Middle East countries of Keewait, Saudi Arabia and Iraq were the primary sources of additional production.

In 1950 (the last full year of its participation in the petroleum world) Iran produced some 243 million bbls. of oil. This is roughly equivalent to 5% of present world production. With every evidence that Iran will be coming back into the world market before too long and with some indications that industrial activity in the United States and other countries may at last be turning down, considerable fear exists over the possibilities of a world over-supply of oil during the next few years. Such an event would undoubtedly result in some cut-back in oil production—including the U. S.—and some softening in the price of crude.

Short-Term Factors in the Canadian Oil Picture

In 1952, Canadian oil production amounted to approximately 61 million bbls. or an average 167,000 bbls. daily. This represented roughly 37% of Canadian consumption. Estimates for 1953 place these figures at approximately 82 million bbls. (or an average 225,000 bbls. daily) equal to nearly 46% of Canadian consumption. Forecasts for 1954 indicate a further rise to approximately 109 million bbls. (or an average 300,000 bbls. daily) equal to some 60% of anticipated Canadian consumption.

Although Canada is by no means insulated from world oil competition, it would appear that the existing wide gap between production and consumption in this country is an important protection with regard to a continued high level of production in Western Canada. However, any decline in world prices would, of course, be soon reflected in well-head prices in this country.

Long-Term Factors in the World Oil Picture

At the beginning of 1953, world crude oil reserves were estimated at approximately 120 billion bbls. Of these the U. S. held something like 29 billion bbls. (or 24%), Canada nearly 2 billion bbls. (or 1.5%) and the entire Western Hemisphere including these two countries only 43 billion bbls. (or 36%). Approximately 65 billion bbls. (or over 54%) were located in the Middle East.

However, the North American continent is presently consuming more oil than it produces. For example, even if all U. S. oil fields were permitted to produce at their maximum efficient rate of production today they would supply only about 6% more than current consumption in that country. In Canada we would be able to contribute only about 70% of our requirements under the same conditions.

Moreover, present U. S. and Canadian reserves are equivalent to only some 12 years' requirements at current rates of consumption in each country.

It is clear, therefore, that if the long-term trend of petroleum consumption continues upward in the U. S. and Canada as anticipated, North American oil reserves must be increased substantially or the two countries will become heavily dependent on foreign sources.

Long-Term Factors in the Canadian Oil Picture

I think you will readily see from my previous comments on the world oil situation, the position of North America in that picture and the results in recent years of Canadian drilling vs. U. S. drilling that Canadian crude reserves—present and potential—are likely to assume increasing importance as time goes on.

Assuming that reserves in Western Canada continue to grow commensurate with the amount of exploration and development carried out, it is expected that Canada will be more than self-sufficient in oil by 1960.

The natural conclusion is that by that date and increasingly so thereafter Canada can become a net exporter of oil with the United States as her most probable market.

Short-Term Factors in the Canadian Gas Picture

Decision is still pending as to whether Westcoast Transmission will be permitted to transport natural gas from the Peace River Area to the Pacific Northwest. Similarly there has been no official announcement on the disposition of the exportable surplus of natural gas in southern and central Alberta.

I am not going to attempt to "call the shots" on these two announcements. Suffice it to say that an early decision in either case although of considerable significance in due course would have no affect on the earnings of potential producers of natural gas for export purposes until such time as the pipeline or lines have been completed two or three years hence.

Long-Term Factors in the Canadian Gas Picture

Today Western Canada has an estimated 10.5 trillion cubic feet of natural gas reserves—a considerable portion of which is available for export. This exportable surplus is likely to snowball rapidly as time goes on.

With the tremendous growth in natural gas consumption in the U. S. over the past 20 years as a pattern and with a large unsatisfied demand still remaining both in the United States and Canada, there is plenty of evidence to indicate that this commodity will assume a high degree of importance in future years to petroleum companies operating in Western Canada.

Western Oil Stock Averages

And now for the forecast of action of the Toronto Stock Exchange Index of 15 Western Oils over the next 12 months.

I think that my previous comments indicate that I believe in the long-term growth potentialities of Western Canadian oil and gas. On the other hand I am only moderately enthusiastic over the short-term outlook.

Today the Western Oil averages stand at approximately 86.33. They have suffered a long and tortuous decline during the past 18 months from their high of 157.56 some 18 months ago. I believe they are near the bottom but that perhaps a last shake-out will be necessary. I would expect this shake-out to take the averages down to about 73 in the near future.

Stocks rarely rebound quickly from their lows after a steep fall such as the Canadian oil stocks have been experiencing. In view of this and in view of my previous conclusions as to the short-term outlook for both world and Canadian oil as well as Canadian gas, I am of the opinion that during the next 12 months the Western Oil averages will not exceed 110 and that at this time next year they will be around the 100 mark.

In closing I would also like to express the view that I believe the stocks of individual oil and gas companies are likely to move more independently in future than in the past and that the stocks of the better financed and better managed companies will receive more public attention than those of the smaller operators. I would expect this to result in an increasing number of amalgamations during the next year or more.

*An address by Mr. Miles at the "Forecasts Dinner" of the Security Analysts Association of Toronto, Toronto, Ont., September 23, 1953.

Clayton R. Call With Goldman, Sachs & Co.

(Special to The Financial Chronicle)

DETROIT, Mich. — Clayton R. Call has joined the staff of Goldman, Sachs & Co., Ford Building. He was formerly with S. R. Livingstone, Crouse & Co.

Lester G. Mouscher Now With H. Hentz

(Special to The Financial Chronicle)

CHICAGO, Ill. — Lester G. Mouscher has become associated with H. Hentz & Co., 120 South La Salle Street. Mr. Mouscher was formerly manager of the trading department for Friedman, Brokaw & Co. of St. Louis.

NSTA Notes

SECURITY TRADERS ASSOCIATION OF NEW YORK

Security Traders Association of New York (STANY) Bowling League standing as of Oct. 15, 1953, is as follows:

Team:	Points
Bean (Capt.), Bass, Valentine, McGovern, Bradley	18½
Leone (Capt.), Nieman, Gannon, Tisch, Greenberg	18
Serlen (Capt.), Rogers, Gold, Krumholz, Gersten	17
Klein (Capt.), Fredericks, Murphy, Weseman, Huff	17
Hunter (Capt.), Brown, Reid, Farrell, Barker	15½
Krisam (Capt.), Pollack, Cohen, Smith, Strauss	15
Meyer (Capt.), M. Meyer, Frankel, Wechsler, King	14
Donadio (Capt.), Craig, Gronick, Bies, Demaye	11
Kaiser (Capt.), Hunt, Werkmeister, Swenson, Ghegan	9
Manson (Capt.), Jacobs, Topol, Weissman, H. Frankel	6
Burian (Capt.), Gavin, Clemence, Montanye, Whiting	5½
Growney (Capt.), Boggs, Siegel, Voccolli, Leinhardt	3½

200 Point Club		5 Point Club
Walt Bradley	257	C. Kaiser
Cy Bies	208	H. Meyer
Hoy Meyer	207	W. Krisam

BOSTON SECURITIES TRADERS ASSOCIATION

Lewis D. McDowell

Henry E. Tabb, Jr.

Edward Hines

John J. D'Arcy

James F. McCormick

William J. Burke, Jr., President and Chairman of the nominating committee of the Boston Securities Traders Association, announces the following nominations for the year 1954:

President—Lewis D. McDowell of Charles A. Day & Co., Inc.

Vice-President—Henry E. Tabb, Jr. of Townsend, Dabney & Tyson.

Treasurer—Edward Hines of Chace, Whiteside, West & Winslow, Inc.

Recording Secretary—John J. D'Arcy of F. L. Putnam & Co., Inc.

Corresponding Secretary—James F. McCormick of A. C. Allyn & Co., Inc.

Nominated to the Board of Governors for two years are: Joseph F. Robbins of F. S. Moseley & Co., John L. Shea, Jr. of Shea & Co., Inc., John A. McCue of May & Gannon, Inc.

Marketing Soundness As a Basis for Bank Loans

By RAYMOND A. RICH*
Vice-President, Philco Corporation

Stressing importance of efficient marketing as basis for economic growth and stability, electronics executive finds today's chief challenge to business to be a growing market. Holds high level of consumer spending, along with adequate consumer, dealer and distributor credit, is essential to nation's economic health. Decries excessive consumer saving as well as wild and free spending under easy credit terms. Urges loan officers give special attention to the marketing phase of an enterprise, and predicts a sound marketing structure will be deciding factor in a business's future success.

The loan officer of a bank has a great social, as well as business, responsibility in the exercise of his office. You do not accept or reject a credit application from industry on the basis of hearsay, on the ledger sheet alone, or through lack of understanding of the many facets of today's industry. You judge accurately the financial stability of a company. You also have an appreciation and a sound understanding of American business, its past, its present, and its future.


Raymond A. Rich

What is marketing? In the simplest terms, I'd say that it is "selling a satisfactory volume of goods at a satisfactory profit." It includes many related activities, all directed at the final objective of selling the customer.

How important is marketing in the overall integration of the various facets of a business enterprise? I sincerely believe that in the era ahead of us, it will be the most important management function. Why? Because of the challenge that lies ahead in the tremendous population expansion of the U. S., the necessity to provide essentially full employment—and to provide a fuller life and a higher standard of living for the American people.

I have tremendous faith in the future of America. We are a dynamic economy. We have lived through depressions, wars and peaks of good times. We have even weathered the dire predictions of those economists who come around every so often preaching the doctrine of a "mature economy." They have been proved wrong so many times that it is unbelievable to me that anyone, particularly in business, would place any credence in the words of these prophets of doom.

Of course, we are going to meet the challenge of today just as we've met it for the past 150 years. Ours is indeed a vibrant, robust, growing economy with all the promise ahead. The next 50 years will show far greater strides in every avenue of living than our antecedents had ever dreamed possible. I sincerely believe that with intelligent business planning and a full understanding by businessmen of the economic factors involved, America will rise to a new level of prosperous living—not for just a few, but for the people as a whole.

We know that the population trend is upward; we know that technological advances will create greater production to meet the needs of the great mass markets. Industry will have to create greater and lower-cost production in all types of consumer goods to meet the need of this ever expanding population. The Census Bureau states that the population will increase about two million per year over the next 20 years. All these additional people will require more food, clothes, shelter, appliances and other types of consumer goods. We will, in fact, have to increase consumption of consumer goods at least one-third in the next 10 years. Lack of understanding of this great market ahead by business may well lead to short-sighted planning and thinking.

*An address by Mr. Rich before the Robert Morris Associates Fall Conference, Atlantic City, N. J., Oct. 13, 1953.

Also, the man on the street will have an increasingly higher standard of living—a standard that in part must be sold to him. In our time, he has been sold the automobile, the telephone, the electric refrigerator, the home freezer, the radio and television. And this average man will want a fuller life—not just more leisure time. People fundamentally don't want just "leisure time." What they want is a better, more creative way of life in terms of travel, elimination of drudgery, more in terms of arts and sciences and broader interests. What they want and are seeking is a higher civilization in terms of creative living. And an alive, alert, strong industry, in cooperation with progressive and well informed banking interests, can help them meet this goal.

Marketing—A Challenge to Better Business

This, broadly, is the scope of the job facing business today; how to meet this newer challenge of the growing market—a challenge demanding industrial statesmanship in the broadest terms of altruism and profit.

If a consumer has spendable funds available over and beyond a prudent scheme of living—including reasonable savings — he should be persuaded to buy additional or better products that will help him and his family live a better life. He should not be urged to keep the old refrigerator just because it runs. He should be sold on the time, food and money saved by a new, larger, and more automatic refrigerator with a separate freezer compartment. Just because a wife is young and strong is no reason to deprive her of an air conditioner in her home if the husband can afford to buy it on an installment basis. (After all, no woman is in a delightful mood after she has sweltered out a hot, humid day — particularly when she knows friend husband has been working in an air conditioned office.)

Perhaps some of us think we should advocate a far greater rate of saving. I question the soundness of that approach because it well can cut consumer spending below a balanced level and directly decrease all business activity. That can mean lower sales, lower production, lower employment, and a lower national gross product. I am by no means advocating a wild, free spending era by the consumer and easy credit to all who knock on a dealer's door. (And, in turn, on the banker's door.) But I do say that a high level of consumer spending with a relative level of consumer, dealer and distributor credit is absolutely essential to economic health.

To illustrate sensitivity of consumer goods sales in relation to employment, here is a hypothetical case in point. Assume a national increase in savings of only 3% and also assume that these consumers, to accomplish this savings, would not buy any passenger automobiles. What would happen? In simple arithmetic, the 3% savings add up to more than $7¼ billion, which is slightly more than equal to the total sales of passenger cars in 1952! We could not tolerate the resultant unemployment.

In short, we must persuade the consumer — by selling and merchandising—to spend the proper share of his disposable income on consumer goods if we are to hold high levels of economic health—(for the individual).

While production techniques have improved to enable a company to produce a quality product at a selling price for the mass market, so has the concept of marketing grown and its importance in the business picture. Basically, marketing consists of all those things a manufacturer does to move his products from his warehouse into the hands of the consumer. It includes the distributor, the dealer, the sales, the advertising and promotional work that goes into selling at the consumer level. For all phases, it must sell a satisfactory volume of goods at a satisfactory profit for all business groups involved.

Marketing—The Heart of a Business

In my role today as an imaginary loan officer, I want to emphasize this important phase of business. Marketing is the very heart of any business. In today's competitive market, the man with the better mouse trap cannot sit in his plant or store and expect the market to come to him. No matter how *fine* the product, unless it is distributed, advertised and promoted by an intelligent, alert and aggressive organization, it will not be a *successful* product. Flow of the product through distributors, dealers, sales, market research, product development, pricing, advertising and sales promotion—all aimed at moving a product into the consumer's hands —is marketing as we know and understand it today. That is an over-simplified definition. Let me break it down so that you can better evaluate its role in determining a company's fitness for a loan.

If marketing is going to be the key to the insurance of high level production, to economic and individual health, then precisely what does this selling formula called "marketing" consist of? What do we look for to assure ourselves that a company has a sound present and future selling philosophy?

First off, in my imaginary role as a loan officer, I would want to know something about the philosophy of Company "X." What are the objectives of management? (It might be surprising to find how many top management groups cannot define ultimate objectives.)

What is their present and future marketing strategy? Here is a vital question. If the strategy is standard operating procedure, then it must be underpinned by thorough classical methods. If the marketing strategy is individual, unusual and effective, then will it stand up in the future against more scientific marketing methods? Will it perpetuate itself through others, or is it tied up in one or two men? Are others being trained in the unique philosophy which was greatly responsible for the success of Company "X"? Is there genuine leadership, and does Company "X" have the policies and people to produce continuing leadership?

Market Strategy

Let me explain what I mean by strategy. A few years ago, "Blank" Electric Co.—which had always been considered a splendid manufacturer of apparatus—was considered to be a very slow outfit indeed in selling appliances. Apparently they had little idea of the merchandising and promotion required in the appliance business. Their strategy evidently was to apply apparatus or heavy equipment thinking to the sales of consumer goods. As a result, few people in the appliance industry ever thought seriously about "Blank" Company being a threat as a competitive factor. Then, a few years ago, a new man became President of "Blank" Company and there were some changes made in the top level management. Several years after that, a completely new strategy showed up in "Blank" Company. Their philosophy regarding the consumer goods business changed completely to a hard-hitting merchandising, promoting, advertising and selling strategy. In the past several years, this company has become a competitor to watch in the consumer goods business.

Another case in point is "XYZ" Corporation. A few years ago, few in the appliance industry had really heard about "XYZ" Corp. They adopted a philosophy of food plan merchandising in selling freezers and, literally overnight, achieved a position as one of the several top freezer manufacturers in the country. It was a smart merchandising strategy and it has certainly paid off.

You can analyze this same characteristic in a successful distributor or dealer operation. I think of several of our top distributors whose tremendous success has been due entirely to a unique merchandising approach developed by Philco over the years. It is the particular strategy of merchandising that counts.

Many successful dealers in the country today use a strategy of selling that utilizes certain fundamentals of good selling practice that have always worked. Here, in this case, is an accepted strategy that has always been successful. Contrast this with the mediocre or extremely poor job being done by many dealers in the country today simply because they have no overall plan or strategy of operation.

Private enterprise consists of "know-how"—or information. It's what management knows that puts one company ahead of another. Marketing particularly is "know-how" coupled with an individual philosophy, augmented by faith and team work.

Specific marketing information, especially in consumer goods, is invaluable. Such items as particular methods in new product development, product research, production costs, profit breakdowns and mark-ups on individual products, and certain aspects of salesmen's compensation are the crystal ball to the future of company "X" if you interpret them properly.

Strategy consists of how the company merchandises, promotes, advertises; how it develops new products; how it prices to merchandise a line. How are excess inventories handled when they occur? Does the company follow the field of competition or strike out on its own? If so, have its tactics been successful?

For example, take seasonal fluctuations in the sale of a particular product line. Has the company done anything about trying to flatten out that seasonal peak?

Continued on page 34

Government Electric Power Invades Free Enterprise

By WALTER H. SAMMIS*
President, Edison Electric Institute
President, Ohio Edison Company

Spokesman for electric power industry traces development of investor-sponsored electric utilities, and decries invasion of government into the business. Gives recent data on government projects, and asserts government in the power business is threat to all private enterprise and individual freedom. Cites discrimination against privately owned utilities in carrying the tax burden. Sees signs of change in government's socialistic trends, and calls for enlightenment of public regarding inequities that exist as solution to problem.

The free enterprise system got started in this country in colonial days. According to historians, three years after the landing of the Pilgrims, men of the colony became dissatisfied with their lot of working, farming, hunting and fishing and then storing the fruits of their labor in a common warehouse to be rationed out to all as supplies. Strong and skillful men got tired of dividing crops wth those who did less work. Women, encouraged by their husbands, began to voice objections to cooking, weaving and working in the fields for other than their own families. So it was that Governor Bradford decided to give each family a plot of ground, permitting each family to keep everything it raised, but insisting that each family must depend on its own work to provide it with food and clothing. The plan, so the governor wrote, in his diary, was a great success, the colonists became industrious and contented, some families had surpluses to sell and famines disappeared. Having found this system worked not only here but in other locations, it was handed down from generation to generation and has become synonymous with America's progress.

Walter H. Sammis

The principle that all men are created equal and endowed by their Creator with certain inalienable rights — among them life, liberty and the pursuit of happiness—is set forth in the Declaration of Independence, and the Revolutionary War was fought in order to establish a government that would maintain, respect and preserve the rights and freedom of the individual.

Our forefathers in drafting the Constitution delegated only certain specified powers to the Federal Government, and carefully reserved to the states and the people all powers not so delegated, for liberty comes not from government but from the people themselves. The free enterprise system has thus been used to preserve the individual liberty and rights of all the people and it is not as some seem to think the property of business. Free enterprise is an instrument of the people, a means of getting things done by the people for their own benefit—the system for their individual and personal well-being. Under this philosophy Americans have become the best fed, best clothed, best housed people on earth. These latter facts should be obvious to all—I'm sure they have been deeply impressed upon all who have seen military service overseas.

Most recently available figures show that with less than 7% of the earth's population, the United States has 54% of all the telephones in the world, 85% of the automobiles, 48% of the radios, 50% of all steel capacity. We supply nearly half of the world's manufactured goods.

Electric Power

Electric power as a bellwether of progress also presents an impressive picture. In 1952 the United States generated 42% of the world's electric energy supply and our electricity per capita was 2,984 kilowatt-hours. This was twice the per capita production in Great Britain, 2½ times that in West Germany, three times that in France and over five times that in Russia. Electricity per capita in the United States continues to grow. Last year's figure of 2,984 kilowat-hours compared with 1,247 in prewar 1939, an increase of 140%.

The benefits that have accrued to the American people under the system of free enterprise are further shown by these additional statistics in the electric light and power field. When Thomas Edison placed the first electric lighting company in operation in New York City in 1882, electricity sold for about 24 cents a kilowatt hour for residential use. By 1907, or 25 years later, this average price for the nation was down to 10.5 cents. In another 25 years, or by 1932, it was down to 5.6 cents. In prewar 1939 it was 4 cents and at the end of last year it had dropped still further to 2.77 cents a kilowatt hour. The early declines in prices resulted principally from major technological advances in the electric art. The reductions in more recent times resulted from numerous factors, including further refinements in equipment and methods and in the continually increasing use of electricity by the consumer, thereby increasing production, raising the standard of living and improving the comforts and enjoyments of life for all.

The household user paid only 1.0% of his disposable personal income for electricity in 1952, as compared with 1.2% in 1939. The manufacturer spent only 6/10ths of one per cent of the cost of his finished product for electricity in 1952 as compared with 1.4% in 1939.

This record since prewar days is all the more remarkable in view of the inflation that has occurred during this era. To the best of my knowledge the consumer of electricity has fared better than the user of any other commodity or service during this period of high prices.

Like many other industries, the early progress of the electric business was marked by the struggles of devoted men to convince a doubting public of the advantages to be gained from the widespread use of the commodity or service. Edison, himself, visualized the elements of an electric light and power system, but had not sufficient funds to develop it in concrete detail. The money invested in the first Edison Electric Light Company enabled him to continue his work and, despite skepticism and ridicule, he justified the investors' trust in him and brought the age of electricity to the world. Much the same story could be told for Alexander Graham Bell and the telephone, Henry Ford and the automobile, James B. Duke and tobacco, Robert Dollar and shipping, George Eastman and the Kodak, William Douglas and shoes, Julius Rosenwald and the mail order business. Benjamin Franklin, whose early printing ventures led to the founding of what is today the "Saturday Evening Post," by dint of hard work and thrift was able to retire from business at the age of 42 and thereafter devote himself to public service.

It is a tribute to the essential faith of these men in the American way of business that they did not give up. The profit motive, of course, was a major factor in keeping them and their associates constantly at work overcoming obstacles, improving their products, and seeking widening public acceptance. They believed in the old adage of Ralph Waldo Emerson: "If a man can write a better book, preach a better sermon, or make a better mouse-trap, than his neighbor, though he builds his house in the woods, the world will make a beaten path to his door."

Government Electric Power Business

Since the profit motive has always been approved by the great majority of the American people as a proper incentive to our way of doing business, it is nothing short of alarming to observe the extent to which the Federal government has gone into proprietary business in competition with its citizens. Last June the Government Operations Subcommittee on Intergovernmental Relations of the House of Representatives began a study of the extent to which the government owned or operated enterprises competing with private business. Representatives from such varied industries as coffee roasting, retail trade, wood boxes, ice cream, rope, paint, printing and binding, tug boat and barge operations, and the baling and sale of scrap iron and steel testified they had to buck the tax-free, overhead-free business of the government, while at the same time in effect they were compelled to pay heavy taxes to keep their "competitors" going. A tabulation presented showed over 100 such different governmental activities.

A compilation by the Tax Policy Committee of the Edison Electric Institute lists 190 electric companies that have been liquidated or are being dismembered as a result of government activities. Of these 43 have been taken over in their entirety by the Tennessee Valley Authority and various state and municipal bodies. Another 55 companies have lost part of their property to these same government agencies. A total of 72 electric companies have been taken over in whole or in part by REA projects promoted and financed by the Federal government. Federal money has been allotted for another 20 such transactions.

Twenty years ago the power generating capacity of the Federal agencies was 7/10ths of one per cent of the industry's total. Today it is 12%. Federal generating capacity has increased more than 40 times in this 20-year period. This generating capacity financed by billions of the taxpayers' dollars amounts to approximately 10.6 million kilowatts. Although by itself, this figure is alarming, the real danger lies in what could be built on this foundation, if indifference to, neglect or lack of understanding of, this situation should persist.

Some 9½ million kilowatts of additional generating capacity are now in various stages of construction for new Federal plants and additions to existing Federal plants, close to 9 million more kilowatts have been authorized by Congress, although all of the necessary appropriations have not yet been made. Above and beyond this, nearly 40 million kilowatts more have been listed by Federal government agencies.
to existing Federal plants, close to 9 million more kilowatts have been authorized by Congress, although all of the necessary appropriations have not yet been made. Above and beyond this, nearly 40 million kilowatts more have been listed by Federal government agencies.

The total of all these projects—now in service, building or contemplated would come to over 69 million kilowatts—as much as the present total generating capacity of America's investor-owned electric companies.

When the Federal government began building multi-purpose dams in the Tennessee Valley, on the Columbia River and elsewhere, it was claimed that the production of electricity would be a by-product or incidental to some constitutional functions such as navigation, irrigation or flood control. That the real purpose was to produce electricity was plainly stated in 1942 in litigation involving Mayor Creech of Sumter, S. C., on behalf of himself and others, and the South Caroline Public Service Authority. The Authority, created by act of the state legislature and aided by a loan and grant from the Federal government, had built the $57,000,000 Santee-Cooper power project in Soutn Carolina. When completed, it was like the lady who was all dressed up, but had no place to go. The Authority had no market for the power. It sought to condemn some private power companies in the area—to force them to sell out to the Authority. Mayor Creech sought an injunction to prevent the sale. The South Carolina Supreme Court granted the injunction.

The Authority petitioned for a rehearing in which they stated that the Supreme Court of South Carolina in considering the case should have known that, while the Act creating the State Power Authority referred to improving rivers for navigation and commerce, this was only a constitutional safeguard, that the real purpose was to put the State in the power business.

Let me quote to you a paragraph from the petition for rehearing filed by the Authority:

"In the great national projects like the Bonneville Dam, the Boulder Dam, and the TVA, the improvement of navigation, reclaiming waste lands, and the creation of a 'yardstick' for electric rates are illustrations of legislative declarations intended to overcome the probable hostile attacks, while at the same time everybody understood and now knows it as a fact that the object of the named projects, and of scores of others that have since been undertaken, was to socialize, so to speak, the business of producing and distributing electric energy through public grants and public ownership."

One of the most recent attempts of government power advocates to have government enter the power business has been at Niagara Falls which is not to be confused with the St. Lawrence Seaway and power project some 250 miles distant. At Niagara Falls the issue is power, and power alone. Admittedly there is no flood control, no navigation, no irrigation. Five private power companies in New York State have offered to jointly develop additional power on the Niagara River at no cost to the taxpayers, but in reality to pay about $23,000,000 a year in taxes. One of these companies has had power plants at Niagara since 1895, and originally advanced the idea of further development of power at the Falls more than 30 years ago. Three bills have been introduced in Congress—one for development by the five companies, another by the Federal government and a third by the State of New York. Last July the House, after Committee hearings, passed the private power bill by a vote of 262 to 120. No bill was reported out by the Senate Public Works Committee, as hearings by the committee were not completed.

Another example of power development—and in this case with only negligible incidental functions of river control—is the Hell's Canyon project on the Snake River in Idaho, where the Idaho Power Company and government power advocates are involved. Idaho Power Company has on file with the Federal Power Commission an application to build three power dams to cost a total of more than $130 million. The Interior Department originally registered strenuous objections with the Commission to the power company's application for a license in favor of a development of its own estimated to cost $400 million. The Department of Agriculture also registered its objection. Recently the two Federal departments withdrew their objections, and the Federal Power Commission will decide whether or not the application of Idaho Power Company should be granted. Hearings have already taken place and are scheduled to be resumed on October 5.

Another argument advanced by Federal power advocates from time to time is that the investor-owned companies cannot take care of the large growth in the requirements for electricity. This contention is not true. On the contrary, the story of the industry's expansion is unrivaled in American economic history.

Investment-Owned Electric Power Adequate

The record of the investor-owned electric power companies of this country since the close of the last war in providing new generating equipment and other electric facilities to meet the ever expanding requirements of the nation for light and power, is probably unequalled by any other segment of our economy. Total investment in their electric facilities has increased from a little over $12 billion in 1945 to about $25 billion today. According to the "Survey of Current Business," U. S. Dept. of Commerce, expenditures for new plant and equipment for all industries in the country since the war have amounted to only slightly over $150 billion, which indicates that the electric companies' expansion accounts for 1/12th of the total. For 1953, public utilities as a group account for $4 billion 425 million or 16% of the total of $27 billion 821 million for all industry.

Most of this new capital comes from the investing public. This poses a question: Who are the investors in power companies? There are about 3,000,000 stockholders and a large number of bondholders. Through life insurance policies, mutual savings bank deposits, pension funds, investment funds, charitable, religious and fraternal organizations, about 90,000,000 people in America are indirect investors in power companies. It's safe to say then that probably everyone in this room has at least an indirect stake in our business.

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*An address by Mr. Sammis at the 35th Annual Convention of the National Exchange Club, Colorado Springs, Colo., September 26, 1953.

Loss Reserves for Investments Of Life Insurance Companies

By HAUGHTON BELL*
Vice-President and General Counsel,
The Mutual Life Insurance Company of New York

In pleading for more discretion by life insurance managers in setting up asset reserves, particularly reserves relating to mortgages and stocks, Mr. Bell calls for altering methods of valuation of stocks to erase severe fluctuation as encouraging a greater amount of investment by life companies in equities. Says mortgage loans, which are valued at par, have fluctuated in value more than generally realized and reserves against such contingency should be permitted. In formulating investment policy, he contends insurance management knows that stock price fluctuations can decrease a surplus substantially, though at present, loss is limited by current low ratio of stock investments to total assets.

There has been a pronounced difference in the valuation of mortgage loans secured by real estate and the valuation of securities. Mortgage loans were valued, immediately following the Armstrong Investigation, at cost so long as they were not actually in default. During the Depression, when defaults occurred or adjustments were made in interest on mortgages because they were unable to meet contract rates, and even where there was neither adjustment in interest rates nor default but where current appraisals showed that the value of the security was below (or at least in the case of purchase money mortgages, not much above) the outstanding principal of the mortgage, writedowns to appraised value, or some percentage of it, or the setting up of reserves representing the difference between the appraised value of the security and the outstanding principal, were required or permitted by regulatory authorities, but no over all policy was formulated as in the case of securities valuation.

Haughton Bell

Mortgage loans, that is to say, loans to individuals or to corporations, which, whoever the borrower may be, are made on the strength of mortgages on real estate having an appraised value affording the statutory margin of security above the amount of the loan, are in essential respects similar to corporate obligations classified as securities. There are, of course, a number of differences. Formerly, mortgage loans were usually made for periods of 3 to 5 years (though often renewed for periods up to 5 years without reappraisal), but now this difference is disappearing. Most are made for periods of not less than 10 years and many for periods of 15 and 20 years and even longer, although, as in the case of corporate obligations, the principle of amortization or serial maturity is now prevalent. There is some difference in the basis for lending, depending on the type of mortgage loan and the type of corporate obligation. In corporate obligations and in mortgage loans on commercial and industrial properties whether the borrower is a corporation or an individual, earning power is always important and this involves the question of management. In mortgage loans on dwellings, however, the predominant question is one of saleability of the security. The differences, however, are not as significant as the fact that in both types of obligations the investor may, by the terms of the instrument, expect to receive fixed interest payments and repayment of the face amount at a definite maturity. Furthermore, on the basis of all past experience, there will be some obligations of each type in which this expectation is not realized—i. e. there will be some loss experienced.

*Extracts from a paper presented by Mr. Bell before the legal section of the 48th Annual Meeting of the American Life Convention, Chicago, Oct. 6, 1953.

In the case of mortgage loans, therefore, just as in the case of corporate obligations, provision should be made over a long period of time for taking care of these losses through the establishment of asset reserves. If this principle is sound as applied to bonds, it is equally sound as applied to mortgage loans, although the experience may be different and, therefore, both the amount of the ultimate reserve and the rate of accumulation may be different. Indeed, since mortgage loans are generally a less liquid form of investment than securities and are therefore even more likely than securities to be held until maturity or default, there is greater reason to value them on a long-term investment basis.

Mortgage loans have fluctuated in value perhaps more than is generally realized. Over the past few years a number of studies have appeared which have traced the loss records of mortgage loans of various types made by institutions such as life insurance companies, savings banks and the like. These include "Urban Mortgage Lending By Life Insurance Companies" by Professor R. J. Saulnier of Columbia University, National Bureau of Economic Research 1950; "Commercial Bank Activities in Urban Mortgage Financing" by Carl F. Behrens, Federal Deposit Insurance Corporation, National Bureau of Economic Research, 1952; "Mutual Savings Banks in the Savings and Mortgage Markets" by Professor John Lintner of Harvard University, Boston 1948; "History and Policies of the Home Owners Loan Corporation" by Professor C. Lowell Harris of Columbia University, National Bureau of Economic Research 1951; "A Mortgage Analysis, 1906-1934" by Edgar A. Lodge of Home Title Guaranty Company, New York, 1935; and "Urban Real Estate Markets; Characteristics and Financing" by Professor Ernest M. Fisher of Columbia University, National Bureau of Economic Research, 1951.

Extent of Capital Losses

A study made by the Research Division of Mutual of New York of the experience of net capital losses for 14 life insurance companies, including losses realized on sales, writedowns, and changes in assets not admitted — but not including reserves—expressed as a percentage of assets held in each form on Dec. 31, 1931 showed that:

(a) For securities, the cumulative net capital loss reached its maximum at the end of 1940 and represented 7.6% of the holdings at the start of the period;

(b) For real estate and mortgages combined, the maximum net capital loss was reached at the end of 1944 and, at this point, represented 6.3% of the portfolio at the start of the period.

The loss figures for the two types of assets were thus not materially different, though changes in conditions could affect this relationship for the future.

There are wide differences in the kinds of mortgage loans and the losses which may be expected, for example, on FHA and VA insured and guaranteed loans, on the one hand, and on loans of a conventional type, on the other. There are also wide differences in the losses which have been experienced on dwelling loans from those which have been experienced on large commercial properties and, here again, these differences should be taken into account in the amount of reserves accumulated. Perhaps these differences may be recognized by some composite figure; the discussion of this subject in relation to securities reserves is equally applicable here.

The essential principles governing the use of the mortgage loan reserve should be largely the same as those governing securities reserve, though there will be some differences due to the different nature of the assets. For example, the question may well arise as to the relationship which has existed between the ultimate recovery after foreclosure and the appraised value at time of default, interest adjustment or other impairment of the security. Another type of question may be how to handle defaults on farm mortgages in years of crop failure where both lending policy of the life insurance company and appraisal of the property may be based on the normal income-producing capacity of the property with due allowance for bad crop years. Questions such as these would seem, however, much less important than those relating to loss experience and loss expectancy.

It is interesting to note the comment of one student of the subject on the influence during the past depression of the absence of adequate mortgage loan reserves. This comment by Prof. John Lintner of the Harvard Business School was directed specifically to the experience of Massachusetts savings banks. In his book, which has just been referred to, he wrote at page 292:

"The banks had gone into the depression with no valuation reserves out of which to absorb the net losses that subsequently developed on mortgage assets, and as a consequence these losses could be charged off only against current earnings and the surplus account. But the amount of book surplus was a published figure, and in a period of widespread distress and distrust of banks and bankers there was an almost universal reluctance to show any reduction in reported surplus figures."

Professor Lintner found that this situation led to the adoption of investment policies, which he considered undesirable, relating to such matters as the disposition and retention of properties, the timing of foreclosures and the taking of purchase money mortgages, all designed to limit and delay the acceptance of losses.

Reserves for Stocks

That there is now a great deal of interest in institutional and fiduciary investment in stocks, common as well as preferred, is illustrated by the publication this last June of a book entitled "Equity Investing by Mutual Savings Banks," by August Ihlefeld, President of the Savings Banks Trust Company, of New York. The extent to which university endowment funds, investment trusts and pension funds have invested in stocks are other indications of the trend in this direction. Trust funds in New York have been permitted by law since 1950 to invest up to 35% of their assets in stocks, preferred or common, and about a year ago the Teachers Insurance and Annuity Association launched its variable annuity plan which contemplates investments of up to 50% of annuity reserves in common stocks.

Before life insurance companies can invest in stocks, preferred or common, to any substantial extent, however, a method which pro-

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Monetary Policy, Business, And the Banks

By DR. MURRAY G. LEE*
Department of Monetary Policy, American Bankers Association

Asserting past six months have been a turbulent period for banks because of declining bond prices, abnormal credit demands, and a continued pressure on their reserves, Dr. Lee surveys current situation relating to Federal Reserve policy, Treasury fiscal operations, debt management and the general business situation. Says interest rates are still low in comparison with other prosperous periods, and warns bankers may be facing a set of new problems arising from possible downturn in business.

The story is told of a noted historian who, when asked to summarize European developments since the Renaissance, replied that this would be a difficult task, since the events of the last 400 years have been so abnormal.


Dr. Murray G. Lee

The past six months or a year have been more abnormal than usual! This period has witnessed a sharp and unusually rapid rise in interest rates. The rate on Treasury bills moved up from 2% in January to a peak of 2.42% in June. Bond yields reached peaks at mid-year not seen since the early 1930's. The bank-eligible 2½s of 1972-67 declined from 97 last November to below 90 in June—a loss of 16 points from their high in January, 1950.

It has been a turbulent period for banks. Bankers have had to weather a period of declining bond prices, extraordinary credit demands, and continued pressure on their reserves.

For over 20 years we have had cheap money. Since 1951 we have been approaching something like a free market for credit. This revolution in the money market has required bankers to adjust their thinking and their policies in the light of fundamentally-changed conditions.

Now, having weathered the adjustment from artificially-maintained cheap money to a higher level of interest rates, bankers may be facing a whole new set of problems growing out of a possible downturn in business activity.

My topic today covers a good deal of territory, and I shall have to cover this ground in a rather summary fashion. I shall divide the presentation into four sections. The first topic, which will require the most detailed treatment, is recent Federal Reserve policy. The second is Treasury fiscal operations. The third will deal with Federal debt management policies; the fourth, with the general business situation. Throughout, emphasis will be placed on the impact on the banks of developments in these areas.

I
Federal Reserve Policy

Of the various factors making for inflation since the end of World War II, two have been largely beyond the control of the Federal Reserve authorities. One was the repeated rounds of wage increases that pushed up costs and prices. The other was the vast rise in bank deposits and other liquid assets that took place during the war.

The third factor in the picture—the vast expansion of private credit since 1945—was amenable to control. Since the end of 1945 commercial bank loans and investments have risen $14 billion. Loans are up $39.5 billion and holdings of non-government securities $7 billion, while holdings of governments have dropped $32 billion. The expansion of bank credit contributed, along with other factors, to an increase of nearly $42 billion in the privately-held money supply (adjusted time and demand deposits and currency outside banks). The credit expansion tended to feed on itself, as the increased business activity and higher prices engendered by rising spending encouraged or necessitated still further borrowing.

The Federal Reserve could have checked credit expansion by selling off in the open market some of its vast holdings—about $24 billion at the end of the war—of government securities. This would have had the effect of pulling down bank reserves and limiting credit expansion potential. Legal reserve requirements could have been raised more sharply than they were.

Unfortunately, the Federal was prevented from taking really effective action because of its commitment to support the market prices of government securities. As a result of this commitment, the Federal was unable to use open-market sales to the extent required to throttle down credit expansion. Moreover, the Federal had to stand ready to buy long-term governments whenever they threatened to slip below par, and this made it possible for financial institutions to unload their holdings at par and use the funds to increase their mortgage and other loans and purchase higher-yielding investments. The Federal thus lost effective control over the generation of reserve funds, and bank reserves and the money supply were, in effect, open-ended.

This situation was terminated by the accord of 1951 between the Federal Reserve and the Treasury, which provided for withdrawal of support from short-term governments and the gradual termination of support of the long end of the market. For a time, the Federal gave some support at periods of Treasury refunding operations, but starting last December the Treasury has been left to stand on its own feet in competition with private borrowers.

The accord gave the Federal a freer hand to regulate the nation's money and credit supply without excessive regard for the effect of its actions on the government bond market. We can get a pretty good idea of what its policy has been by looking at the published figures on bank reserves and the factors affecting them. Reserves, of course, are the key to the credit situation: when banks have excess reserves, they can expand their loans and investments, to the extent that demand for funds is forthcoming; when they do not have excess reserves, they cannot expand credit, unless the Federal supplies additional reserves via discounts or open-market purchases.

During the two-year period from mid-1951 to mid-1953 three things happened to member bank reserves. First, *required* reserves rose about $1 billion—due to the rise in deposits, which in turn was mainly due to the rise in bank loans. Second, there was a *drain* on reserve balances of about $1.6 billion, as a result of a rise of $2.3 billion in currency in circulation which was only partially offset by a gold inflow of $700 million for the period as a whole. Third, the Federal increased its holdings of governments by $1.7 billion, thus providing the banks with additional reserve funds of that amount—*just enough* to offset the net drain from currency and gold movements.

As a result of these developments, *excess* reserves fell. This, in turn, made the banks increasingly dependent on borrowing from the Federal. The discount windows again became active. By the middle of 1952 borrowings exceeded excess reserves By December, 1952 they hit $2 billion—the largest since 1920.

The significance of this development was threefold. First, it meant that the Federal now had the credit situation firmly under control. Further expansion of credit was only possible if the Federal chose to feed additional reserves into the banks by discounting for them or increasing its holdings of governments. Second, when banks are continuously in debt to the Federal they tend to become more reluctant lenders. They tend to avoid increasing their loans and investments, and when they come into possession of new excess reserves they tend to use them to reduce their indebtedness to the Federal. Third, the discount rate again became an important instrument of Federal Reserve policy as it had been in the earlier days of the System. In January, 1953 the discount rate was raised from 1¾ to 2%—an indication to the banks that further expansion of credit was frowned upon by the monetary authorities and that more restrictive measures might be in prospect.

Certain misapprehensions have grown up around these developments which need to be dispelled. I shall mention four.

One is that the Federal has been "tightening" credit. The Federal has tightened credit only in the sense that it has not provided the banks with *all* the additional reserves they needed in order to accommodate *all* credit demands at rates that borrowers consider attractive. As I have shown, it provided the banks with $1.7 billion of new reserve funds during the two-year period down to the end of June; but it did not supply them with enough reserves to prevent their excess reserves from dropping or reserve deficiencies from developing. In sum, the policy has been to allow rising credit demands—reflecting in expansion of credit and deposits—to exert pressure on reserves, thus gradually forcing the banks into a position where they were once again dependent on the Federal for additional reserves needed to accommodate credit demands.

The policy has not been aggressively restrictive. The Federal has not sought to force credit contraction. The rise in loans continued, although banks were forced to reduce their holdings of securities in order to accommodate credit demands and have tended to become more cautious and selective in screening loan applications.

Nor has the Federal sought to push up interest rates. What has pushed up rates has been the pressure of extraordinary demands for credit — demands for business loans, for consumer credit, for mortgage money, and for long-term funds needed for expansion of productive facilities.

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*A paper delivered by Dr. Lee at the Banking Law Section of the New York State Bar Association, Buffalo, N. Y., Sept. 25, 1953.

The Odd-Lot System on the New York Stock Exchange

By COLONEL HOWARD C. SMITH*
Partner, DeCoppet & Doremus
Members of the New York Stock Exchange

Colonel Smith reviews development of odd-lot trading on the New York Stock Exchange, and points out odd-lot specialists are not brokers but act as principals, receiving a differential above floor prices instead of a commission. Describes execution of an odd-lot order and reveals method of stock keeping by odd-lot dealers and their avoidance of abusing their position by trading arbitrarily or possibly upsetting the market. Explains working of odd-lot order room and its communication with Exchange floor and with member firms. Stresses importance of "timing" transactions on the trading floor to fix the odd-lot price.

In the early days the Exchange operated under what is known as a "call" system. That is, the Chairman at the opening of the Exchange proceeded to call one stock at a time. All the buyers and sellers who had orders in that stock gathered in front of the rostrum and effected their trades. When they were done with that particular stock, they moved down to the next, and so on down through the list.

It was a cumbersome system at best. I talked two weeks ago with a member of the stock exchange in Sydney, Australia, where they still use the call system, and he said it is getting almost inoperable. They cannot proceed much longer under it. Here, on the New York Stock Exchange, they adopted the present auction market, with which I am sure you are all familiar. Now, there was no unit of trading, such as we have today. The buyer and seller met and traded in any number of shares. That became a little bit cumbersome in itself, so a system was developed which, first of all, adopted 100 shares as a trading unit on the New York Stock Exchange, so the odd-lots were, by and large, handled in the offices of the various commission firms, very much as the present over-the-counter market is handled.

A few smart fellows, by and by, thought that they could more properly handle these odd-lots by going directly down to the floor of the Stock Exchange, so a few of them did just exactly that. They went down on the floor, and set themselves up to deal only in odd-lots. Even at that point, an odd-lot was not tied into the round-lot sale. It was a matter of negotiation on each trade.

Tying the Odd-lot Order to Round-Lot Sale

It was a somewhat natural step, I think, from then on to the development of the present system, namely, that the odd-lot order is tied directly to the round-lot sale. So much for the history of the thing.

Let me bring out one point, if you don't already know it. In the first place, we odd-lotters are not brokers, in the sense that the word is generally used. If you go to your commission firms and give an order to buy 100 shares of Steel, that order will eventually get into the hands of a broker on the floor of the Exchange. He will go to the post where Steel is traded, quote the market, and buy your 100 shares. He is acting purely as your broker.

Now, we, the odd-lotters, are principals in every transaction. We buy and sell for our own account.

Odd-lot Order Procedure

I think we might trace an order, from its inception, through to its completion. Let us say that one of you gentlemen goes to your broker in Chicago. You go into the office and get the man with whom you deal, and you put in an order to buy 50 shares of General Motors at the market. That order goes to the order room of the Chicago firm. It then goes on the wire to New York, into that firm's office if they have one; if not, to a firm in New York through which they clear.

The order room in New York has a direct wire to its booth on the floor of the Stock Exchange. That order is called down over the direct wire to the floor of the Stock Exchange. A telephone clerk stands there, and let's assume that that firm is doing its odd-lot business with DeCoppet & Doremus. The clerk has two pads right on his desk in front of him; one is buy and one is sell. They are printed on the bottom "DeCoppet & Doremus."

He picks up his telephone, and he gets this order to buy 50 shares at the market, which he writes down, tears off, drops it on the nearest tube station. An employee of the Stock Exchange takes this order, wraps it up, puts it in a carrier, shoves it down the proper tube, and it goes under the floor, and comes up at Post 4, where General Motors is traded.

At this point, another employee of the Stock Exchange takes the order out of the carrier, puts it under an automatic time clock which stamps the time of arrival at the post, and that is an extremely important operation, as you will see later on.

The clerk of the Stock Exchange then takes this order and puts it on a hook which is on the post at the open end of the horseshoe. Our odd-lot brokers are stationed there and they stay there all day. You can see the number of steps that have taken place already from Chicago down to the odd-lot broker on the floor of the Exchange.

We, the odd-lot dealer, have had absolutely no responsibility until that very moment when the order reaches the hands of our broker. It may have been delayed in the wire room in Chicago, it may have been delayed in New York, and the clerk on the floor might have been goofing off someplace, and might have stayed there for two or three minutes. All of these things are important to us, because many times the customer is sitting in the board room, and thinks he is entitled to execution when the order has not even reached our hands.

When the order is in the hands of our broker, he picks it off the hook in back of him, and he sees it is marked an order to buy 50 shares of General Motors. As you probably know, that order is entitled to an execution the next time a round lot of Motors is sold, whether it be 100 or 5,000 shares.

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*An address by Col. Smith before 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 Securites Dealers, American Stock Exchange and the New York Stock Exchange, at the Graduate School of Business Administration of New York University, New York City, Aug. 31, 1953.

Sound Money—Not Money Managers!

By MERRILL E. SHOUP*
President, The Golden Cycle Corporation

Mr. Shoup takes issue with former Federal Reserve Chairman, Marriner S. Eccles, regarding efficiency of managed currency and his statement that currency convertibility is no assurance of either sound money or economic stability. Points to use of gold in settling international balances as proof "paper money managers" do not trust each other or subscribe to a "super-money manager."

Although basic reasons to return to the gold standard have been presented in a large number of excellent articles and speeches, there is a vital need that the arguments for a return to sound money be repeated and again repeated. It is vital to our nation and to the welfare of the entire world that we return to the gold standard and do it promptly. Economic truths do not change through the ages, despite efforts of politicians to remake them. My thinking on sound money can best be conveyed to those present today by distributing a copy of a talk entitled "Sound Money or Depression," which I gave to members of the Los Angeles Rotary Club June 5, 1953, which was subsequently printed in the "Commercial and Financial Chronicle" and has been placed in the Congressional Record. To save your time and to keep my talk to the allotted period, I am passing out copies of this talk which I hope you will find interesting.

Merrill E. Shoup

Today I thought it constructive for me to point out the fallacies and ridiculous premises upon which arguments opposing a return to the gold standard are based. I am going to refer to a talk given by Marriner S. Eccles before the Pacific Northwest Conference of Savings & Loan Associations, at Ogden, Utah, June 9, 1953. Mr. Eccles' speech illustrates perfectly the type of thinking which advocates of sound money are confronted with. I will not attempt to cover all of his talk, but confine myself to the main points. Mr. Eccles says, and I quote:

"During deflation the dollar is unsound to the debtor because of its increased purchasing power and difficulty in acquiring. During inflation the dollar becomes unsound to the creditor or saver because of its decreasing purchasing power. These excesses can be avoided only by intelligent management and use of our money supply through a fiscal policy on the part of the government and a monetary and credit policy on the part of the Federal Reserve System timed to meet the conditions necessary for maintaining production and employment on a basis of economic stability." This statement, of course, means that Mr. Eccles strongly favors management of money by men. Mr. Eccles emphasizes his belief by further stating: "The gold standard, or convertibility of our money into gold, would give no assurance of either sound money or economic stability. To quote Allen Sproul, President of the Federal Reserve Bank of New York, 'If you are not willing to trust men with the management of money, history has proved that you will not get protection from a mechanical control. Ignorant, weak, or irresponsible men will pervert that which is always perverse'."

*An address by Mr. Shoup before the American Mining Congress, Seattle, Wash., September 23, 1953.

Mr. Eccles' Views

Mr. Eccles has appointed himself as one of the leading spokesmen for that group who still continues to sponsor paper money management. Because paper money managers are, after all, mere men—not supermen—and because our record of the last 20 years has been a failure, spokesmen and sponsors of continued paper money management are on the defensive. Like recent European politicians and America's own rainmakers, paper money managers are now far from worship by their fellow man. Theoretically paper money management, like socialism or communism, is Utopia. There may be one man in these United States with capabilities to manage our money, our pocketbooks, and our lives. If such man does live, he has to date failed to offer his services to our political administrations in Washington.

A summary of Mr. Eccles' talk, which represents the summary of all men who sponsor paper money management over a gold standard, is that no standard is perfect. In effect, money managers say that John Doe Public will suffer loss under a gold standard over the years and that, therefore, why change from managed paper money which they tell us John Doe Public has enjoyed for 20 years. Let's examine a few facts.

The paper money managers, who have enjoyed with the spenders in our Washington Administrations a blank check arrangement on John Doe Public's bank account, have accomplished the following results: Under irredeemable paper currency, John Doe Public cannot stop at any time and at his will end government financial rampages. Under a gold coin standard and redeemable paper money, John Doe Public can demand gold for his money savings at any time when he feels that his government is unwisely handling its finances.

During World War II we spent $350 billion and suffered one million casualties — all for the end purpose of helping to save France, England, Russia and China. Since World War II, we have spent or committed ourselves to spend, to bolster foreign nations and to fight Russia and China, $55 billion and suffered an additional 150,000 casualties. John Doe Public may well have questioned our government's spending, coziness with Russia, sell-out of Nationalist China, the Korean affair, and the continued spending policies originated by men tried and found wanting. But Mr. Public could do nothing about it. He could not demand gold for his paper money. Since 1940, John Doe Public might have at times been worried by the increase in paper currency in circulation, which increased from $8 billion to $29 billion today. He might have been worried about the increase in bank deposits from $63 billion to $167 billion, but again he could do nothing about it. Maybe John Doe Public is the loser under any money standard. Maybe John Doe Public will lose under a gold standard. But one thing is certain, proven by past history, recent history, and events reported daily in your newspapers, and that is that John Doe Public's losses under the gold standard have been negligible — nothing compared to his losses under irredeemable paper money management. Mr. Public enjoyed peace, prosperity, progress and individual dignity from 1814 to 1914, when the then world leader adhered to a gold standard.

Speaking of paper money managers, it is interesting to note that they apparently do not trust each other or subscribe to a super, super money manager who would control the paper money issue for the entire world. Paper money managers in the world today settle balances between themselves in gold. Out of one side of the paper money manager's mouth comes all the glittering promises of security, benefits, high standard of living, and dribble as sales talk to American citizens. And it has been a good sales talk; it had to be, to talk Americans into giving up their gold in exchange for paper. From the other side of the paper money manager's mouth comes the thought that foreigners must settle their trade balances in gold—their paper money is not acceptable. There is something evil about any double currency standard, when that standard makes available American citizens' gold to foreigners and denies that same redeemable dollar and hard money to the citizens of this country.

The only alternative to chaotic conditions (wars, currency deterioration, dictators) is peaceful trade between individuals, communities, states and nations. There can be no real trade under irredeemable paper currency in which John Doe Public has no confidence. The hope of a safe future, not only in the United States, but the entire world, lies in a prompt return to the gold standard.

Karl Panke V.-P. of Blair, Rollins & Co.

Blair, Rollins & Co. Incorporated, 44 Wall Street, New York City, has announced that Karl J. Panke has been elected a Vice-President of the firm. Mr. Panke has been in the investment banking business for the past 25 years and had been associated with Lehman Brothers for the past six years. Prior to that time he was with C. F. Childs & Co. for 12 years.

Karl J. Panke

Branch in Florida

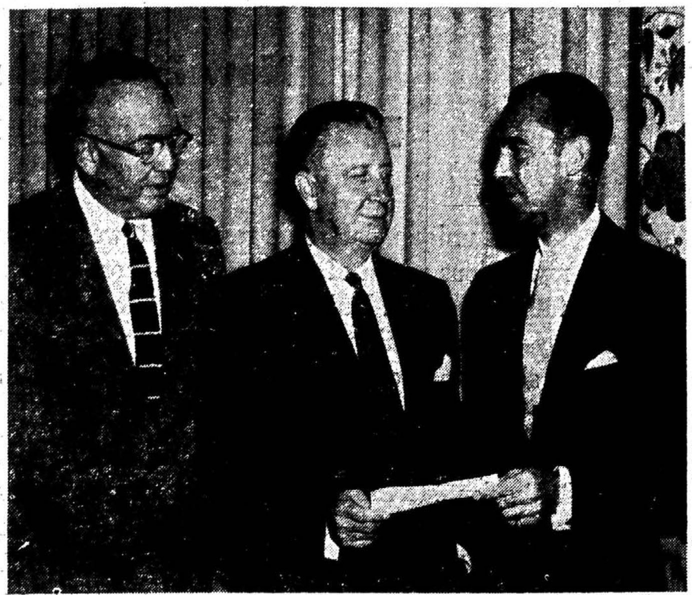
CHICAGO, Ill.—Eldredge, Tallman & Co., investment securities firm at 231 S. La Salle Street, has announced the opening of an office in the Miracle Building, 220 Miracle Mile, Coral Gables, Fla.

The new Coral Gables office will be staffed, at different times, by the company's registered representatives. This arrangement will permit each representative to live in Coral Gables with his family and conduct his business in Florida for a specified length of time each year.

Wire to New York

DALLAS, Tex.—John W. Turner, President of the investment banking firm of Eppler, Guerin & Turner, Fidelity Union Life Building, announced the establishment of a direct wire with Goldman, Sachs & Co. in New York.

New Jersey Turnpike Authority Bond Sale



One of the largest public offerings of turnpike bonds on record was sealed on Wednesday, Oct. 14, 1953 when Paul L. Troast (above, center), Chairman of the New Jersey Turnpike Authority accepted from C. Cheever Hardwick, (right) partner in the investment banking firm of Smith, Barney & Co., a check binding the purchase by the firm and associates of $150,000,000 New Jersey Turnpike Authority 3¾% bonds due July 1, 1988. Maxwell Lester, Jr., (left) member of the Turnpike Authority, observes. An investment banking group comprising approximately 350 members and headed by Smith, Barney & Co. purchased the bonds from the Authority and re-offered them to the public at a price of 99.50%, a yield of approximately 3.40%.

Higher Yield on Insur. Funds Offset by Taxes

Institute of Life Insurance notes policyholders' benefit from rising interest rates of last five years has been sharply reduced by higher taxes on investment income.

According to the Institute of Life Insurance the net rate of interest earned on investment by the nation's life insurance companies has been rising for more consecutive years than at any previous time since the turn of the century, but the benefit to policyholders from this improvement has been sharply reduced by the heavy inroads of taxes.

"If this year sees the anticipated further increase in yield," the Institute says, "it would be the sixth successive year of rise in investment yield and the six-year increase would be such as to eliminate most if not all of the decline of the six or seven years prior to the upturn. Such a gain would normally have already been reflected in life insurance costs, but a large part of this yield improvement has been offset by rising taxes. Consequently, only a portion of the greater investment income is available to apply to policyholders' net cost of insurance."

Several Cycles Seen

Looking back over the past 100 years, the Institute has found that the life insurance investment earning rate has moved through several cycles of increase and decrease. In the early 1850s, the rate was in the neighborhood of 5.0%. For the next 25 years, the trend was generally upward, with some fairly sharp fluctuations, winding up at about 6.5% in the mid-1870s. The ensuing 25 years saw a general decline, with the rate shortly after the turn of the century being about 4.5%.

During the first quarter of this century, there was another upswing, with the rate of the mid-1920s being not much different from that of 75 years before. The peak of this period was in 1923, when the rate was 5.18%. After 1923, there was a decline to the 1947 low of 2.83%. Since then, the rate has been rising, with 3.28% reported last year and a rise expected again this year.

For the most years prior to the 1940s the net rate of interest earned was practically the same as the effective rate, but in recent years the inroads of Federal income taxes have become appreciable. Last year, for example, the earning rate of 3.28% became an effective rate of 3.07% after taxes. About half of the improvement in yield rate since the current upturn began has been offset by Federal income taxes alone, not taking into consideration state and local taxes.

The current rise is a reflection of both higher interest rates generally and also portfolio changes. As a matter of fact, the greater part of the improvement thus far is probably traceable to portfolio changes, as it takes a long time for the improved interest rates to be translated into over-all earning rates.

Frank Denison Joins Walter & Company

DENVER, Colo.—Frank J. Denison, widely known in financial circles is now associated with Walter & Company, First National Bank Building.

He was a commercial banker for many years, during which he was with the First National Bank of Denver for 18 years, President of the Stockyards Bank, a Vice-President of the Denver National Bank, and President of the Colorado Bankers Association.

Mr. Denison then entered the investment banking field, and from 1929 to 1940 represented Calvin Bullock in New York, Chicago, Philadelphia, and Denver. Moving to California he was associated with Mitchum, Tully & Co., investment bankers in Los Angeles.

Since returning to Denver in 1949 he has been associated with the investment banking firms of Peters, Writer & Christensen and later with Bosworth, Sullivan & Co.

Money—One of the Government's Biggest Problems

By WALTER WILLIAMS*
Under Secretary of Commerce

Pointing out getting money is one of the government's biggest problems, Commerce Department executive gives data on national finances. Says figures give "insight into the difficult spot we are in." Points out cutting substantially the national budget is a tough job, despite present steps taken in that direction. Reveals government outlays can be cut only in areas where they are not already fixed, and, excluding defense expenditures, this area constitutes less than 10% of the total expenditure.

I would like to stress the tremendous need in a democracy for an informed public. It is a public responsibility to know and to understand the problems which face our government, which, of course, means problems which face us.


Walter Williams

Money is one of the government's biggest problems, just as it is yours and mine. Let me outline this problem for you now. I'd like you to see some of the most challenging aspects of the money problem.

Here is a little background material as a starter:

(1) The national debt now stands at $273 billion.

(2) Beginning with fiscal 1934, there were 13 consecutive years of deficits.

(3) Requests for new appropriations in the January budget have been reduced by $13 billion.

(4) For the first time since 1948, new authorizations to spend are less than estimated expenditures.

(5) For the first time since hostilities began in Korea, new authorizations to spend are less than estimated receipts.

Now with that background in mind let me point out that in the fiscal 1954 budget, 70% of all expenditures will go to national security. This includes the military functions of the Defense Department, the Mutual Security Program, and the Atomic Energy Commission.

22.8% of the budget will go for expenditures fixed by law. This includes interest on the public debt, the Veterans Administration, agricultural price supports, and grants to states for unemployment compensation.

7.2% of the budget goes meeting the expenses of government, including the Post Office deficit and the Department of Justice, including the FBI.

In summary, contemplated expenditures will be $72.1 billion. Receipts will be $68.3 billion. And the deficit . . . $3.8 billion.

This deficit can conceivably be met in one of two ways—either increasing revenues or decreasing expenditures. Revenues can be increased by direct taxes on individuals, by direct taxes on corporations, by borrowing, by excise taxes, or by customs levies. Expenses can be cut, naturally enough, only in areas where they are not already fixed, namely in the 70% expenditure for national security or in the less than 10% expenditure for government overhead.

These figures give you an insight into the difficult spot we are in—you and I and our government. What steps have been taken to meet this problem? Rigid economies are still being practiced in running the government. The Defense Department has effected a $5 billion cut in the air force budget. I think you will be interested in these steps taken to make this saving. First of all, the Department determined through careful examination and study just what is necessary for our national security. The Department then planned ways to eliminate every wasteful expenditure and duplication. From there they decided upon the amount of money needed to meet the program.

Among the reasons the Department of Defense was able to maintain a secure position and still spend less money, I shall list these:

(1) **Getting Delivery:** Now that the aircraft industry is in quantity production, delivery is speeded up and money does not have to be obligated so far in advance.

(2) **Losses:** Losses of planes in Korea and through accidents have been much lower than estimated and provided for in previous budgets. **Result:** Substantial carryover of funds.

(3) **Jet Engines:** The life of jet engines has proved to be much longer than expected. **Result:** Not nearly so many replacements needed as expected, and substantial funds saved.

(4) **Limited Construction:** New bases, barracks, warehouses, etc., to be undertaken only on the basis of demonstrated need.

(5) **Installations:** Unnecessary or marginal bases and installations are being closed.

(6) **Personnel:** Savings have been effected through the strictly economic use of personnel, civilian and military.

(7) **Support Aircraft:** In the 30 months beginning July 1 this year, about 850 support type aircraft will be dropped from schedules. These include trainers, transports, helicopters, and liaison aircraft—including special planes for visitors.

These facts will, I hope, give you a somewhat better understanding of the problems of government. Many of these problems can be solved by charting new courses and by stepping out boldly—you and I and all of us—with courage, knowledge, persistency, alertness to subversion, and faith.

*From an address by Under Secretary Williams before the Packaging Institute, New York City, Oct. 12, 1953.

IN MEMORIAM

George Elder Watson

George Elder Watson, former member of the New York Stock Exchange, and head of the former Wall Street brokerage firm of Watson, Armstrong & Co. until his retirement in 1942, passed away last week at his home in Summit, N. J. after a brief illness. Mr. Watson was a member of the Union Club and the Racquet Club of New York and the Garden City Golf Club.

He is survived by his wife, the former Rosalie Starr; his son, George E. Watson, Jr., a partner in Gude, Winmill & Co., and two daughters.

Continued from page 2

The Security I Like Best

following dividends (calendar year) on the 5% prior preferred stock:

1951	12½ cents a share
1952	6¼ cents a share
1953	*25 cents a share

*Includes declared dividend payable Nov. 1.

During the fiscal year ending June 30, 1953 this company has paid on account of loans current and loans non current a total of $905,611, so that for fiscal year 1954 there will be a substantial reduction in interest charges which should help to accelerate back dividend payments on the preferred stocks.

Pertinent facts on Avildsen Tools & Machines, Inc., as of June 30, 1953:

Capital Stocks & Surplus

5% pr. pfd. stk. ($5 par) outstdg.—195,671 shs.	$978,355
6% pfd. stk. ($5 par) outstdg.—31,453 shs.	157,265
Com. stk. ($1 par) outstanding—309,796 shs.	309,796
Cl. A com. stk ($1 par) outstdg.—118,573 shs.	118,573
Paid in surplus	442,430
Earned surplus	296,326
Accum. back divs. on 5% prior pfd. (68¾¢)	134,588
Accum. back divs. on 6% preferred ($1.35)	42,462

Book value of common over $2.30 a share after making provision for depreciation of over 52% of the original cost of machinery and equipment.

Earnings for Fiscal Year Ending June 30, 1953

Net sales	$7,684,103
Profit from oper.	489,304
Other deductions	211,824
Profit before taxes	277,480
Provision for Fed. tax.	152,000
Net profit	125,480
Divs. paid on 5% pfd.	*46,676
Divs. due on 6% pfd. (not paid)	9,600
Bal. for com. stock	†69,104

*Calendar year 1953 including declared dividend payable of 6¼ cents on Nov. 1. †Equal to about 16 cents a share.

The current 25 cents dividend on the 5% prior preferred stock gives a return of about 7% on the package cost of one share of the 5% preferred at present market of 2½ and one share of common at 1. In addition the present low prices for these stocks present a possible opportunity for a substantial profit in capital gains over the next few years. Avildsen common and preferred are traded in the Over-the-Counter market.

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The Recession in General Business

How Far? How Long? What Will the Administration Do About It?

country, economic health must be maintained not only for internal prosperity, but to maintain the defense of this country and its allies at a peak.

We hear much of the economic difficulties of our allies, especially in Western Europe, difficulties that have made it necessary to pour billions abroad for military and economic aid. We tend to overlook the fact that most of our allies are operating under fairly good economic conditions. But we have to face up to the probable result in those countries should a depression take place in this country.

Therefore, a very important aspect of the business outlook is the fact that the Administration **must** see to it that major business declines do not occur. And the Administration has made it very, very clear that that is a cardinal policy of the United States Government.

Even at this point in the downward business trend that is taking place, the Administration has already acted. Credit policies have been agreed upon and are being carried out by the Treasury and the Federal Reserve Board to guarantee a sufficient volume of credit to underwrite the important fourth quarter business activities. The beginnings of easing of the tight money situation, referred to earlier, is a direct outgrowth of that policy.

If this type of action were all that could be undertaken by the Administration, the relationship of government to business in the coming months would be accorded only secondary consideration.

Broad Area of Government Intervention

This is not the case. The area of government intervention in the business picture for the purpose of improving economic conditions is a very broad one, and contains many roads.

(1) A further and basic easing of credit. Such measures as lowering bank reserve requirements would enlarge lending ability of the banks, and thereby pump credit into the economy, to expand business operations.

(2) Easing down payment requirements, and extending amortization periods on Federally-backed mortgages. The power to do so already is in the President's hands. In addition, more funds for the Federal National Mortgage Association, which acts as a secondary mortgage market, or helping to set up a private secondary mortgage market, would help conditions in the highly important residential building field.

(3) Drawing upon the huge reservoir of public construction projects, many of them connected with the nation's defense needs.

(4) Permitting corporate tax rates to sink to a lower level in order to stimulate capital investment, and distribution of dividends.

(5) The placing of defense orders well in advance, through letters of intent, etc.

Actions such as these would have an impact in two different fashions: the actual economic stimulation involved, and the restoration of public confidence.

This latter could be a very important factor; increased confidence leads to increased purchasing, whether for cash or credit, even if the income curve were slow in moving upwards, the consumer would be likely to spend a larger proportion of his income.

Should the Administration find it necessary to employ the above or similar approaches, they would generally find favor with the business community, since they represent, in the main, attempts to stimulate the economy through private channels.

"Direct action," to quote Housing Director Albert M. Cole, is another possibility. This would mean such actions as direct lending by the Administration to qualified home buyers, etc.

Thus, the desire of the Administration to contribute to economic stability at high levels of operation is backed by the means to do so, whatever the specific form involved.

This does not mean that the Administration will go running into action at every stress and strain that appears; but it does mean that every important movement will be evaluated, and the groundwork laid for action if and when required.

In the months to come, individual industries, business firms and commodities will show variations of importance; and only those who are right on top of those variations can make the necessary decisions.

But regardless of the individual situation, the outlook must still be considered against the background of the over-all movement of the economy during the period. Therefore, let me sum up the main points of the business outlook over the next important economic swing:

(1) Declines that are being seen in an increasing number of economic indicators have not yet reached the bottom, even though they are moving slowly. In general, lower levels of business activity will carry well into 1954.

(2) Sometime during the latter half of 1954, it is likely that the bottom of the declines will have been seen, and upward trends will start to dominate. For the year as a whole, however, economic indicators will average less than during 1953.

(3) An important bulwark against extended declines is the willingness and the readiness of the Administration to embark on a series of actions which would help to halt and reverse such declines.

John Delmer Joins Blyth in Chicago

CHICAGO, Ill.—John F. Detmer has become associated with Blyth & Co., Inc. in the municipal department of the Chicago office, 135 South La Salle Street.


John F. Detmer

Before joining Blyth & Co., Inc. Mr. Detmer was with H. M. Byllesby & Co. (Inc.). For several years prior to that time he was the principal in his own firm of Detmar & Co.

Stevens, Cornelius Co. to be Formed

BUFFALO, N. Y. — Stevens, Dann & Co., Inc. and Edward Cornelius & Co., Inc. as of Nov. 1 will merge to form Stevens, Cornelius and Co., Inc. Offices will be located at Ellicott Square. Officers of the new firm will be Frederick C. Stevens, President; Edward Cornelius, Vice-President and Treasurer, and E. W. Dann Stevens, Secretary.

J. A. Hogle Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Richard O. Gude has been added to the staff of J. A. Hogle & Co., 507 West Sixth Street.

B. Ray Robbins Co. Opens

Beatrice Ray Robbins is engaging in a securities business from offices at 501 Fifth Avenue, New York City, under the firm name of B. Ray Robbins Co.

Investment Bankers Association of America To Hold Forty-Second Annual Convention

Meeting to Be Held at Hollywood, Fla., from Nov. 29 to Dec. 4.

The 1953 Annual Convention of the Investment Bankers Association of America will be held at the Hollywood Beach Hotel, Hollywood, Florida, beginning on Sunday, November 29, and ending on Friday, December 4.


Ewing T. Boles

There will be a convention session each morning from Monday through Friday. President Ewing T. Boles, of The Ohio Company, Columbus, will address the opening session on Monday, and the principal speakers at the subsequent sessions will include:

Hon. George M. Humphrey, Secretary of the Treasury.

Ernest R. Breech, Executive Vice-President, Ford Motor Company.

Ralph H. Demmler, Chairman, Securities and Exchange Commission.

Dr. Raymond J. Saulnier, Director of Financial Research, National Bureau of Economic Research.

In addition to the convention sessions, there will be meetings of the Board of Governors; and most of the national committees of the Association will hold meetings during the convention and will present their annual reports at the convention sessions. An open meeting of the Municipal Securities Committee will be held on Sunday afternoon, Nov. 29.

With the exception of that meeting, and possibly one or two other committee meetings, it is not planned to schedule any business sessions in the afternoons. They will be left free for recreation. Excellent facilities for golf, tennis, swimming, and fishing are available.

Hollywood is situated on the east coast of Florida, 17 miles north of Miami. It furnishes an unusually satisfactory site for an I.B.A. convention, and has long been one of the Association's most popular meeting places.

A registration fee will be charged for each delegate and alternate and his wife or other member of his family attending the convention. This fee will be $40 per person. Checks covering registration fees should be made payable to the Association and forwarded to the Chicago office of the Association with the appropriate white form.

All reservations for hotel rooms for the convention must be made through the Chicago office of the Association. Confirmation of reservations will be made as promptly as possible, but due to the time required for processing them, there may be some delay in this connection.

In addition to the Hollywood Beach Hotel, the Hollywood Beach Apartments, Seacrest Manor, the Surf Hotel, and the Town House will also be available for convention housing purposes. On the basis of past experience, it will be necessary to place a substantial number of persons at these other hotels. In view of this, no more than two rooms will be assigned at the Hollywood Beach Hotel to any one member organization. It should be noted that this limitation does not necessarily imply that each member organization requesting same will be assured of two rooms at the Hollywood Beach Hotel, or that each member organization will be assured of at least one room at that hotel, as this may not be possible if the attendance should approach that of recent years.

Representatives of the Hollywood Beach Hotel will travel on the convention special trains and will furnish passengers with slips indicating their hotel room numbers. These slips will take the place of hotel registration. Slips for the Hollywood Beach Hotel should be presented to the floor clerk on the proper floor of that hotel. Slips for the Hollywood Beach Apartments should be presented at the front desk of the Hollywood Beach Hotel. Slips for Seacrest Manor, the Surf Hotel, and the Town House should be presented at the front desks of those hotels. Room keys will be turned over as slips are presented.

The hotel's representatives will also furnish passengers with baggage tags filled out with their names and hotel room numbers. One of these tags should be attached to each piece of hand baggage. Then, upon arrival in Hollywood all such baggage will be transported immediately from the station by truck and distributed promptly to the proper hotel rooms.

Convention Transportation

New York Special Train: The route of the train in both directions will be Pennsylvania RR. between New York and Washington, R. F. & P. RR. between Washington and Richmond, and Seaboard RR. between Richmond and Hollywood. Pullman reservations for the going trip should be made through the New York Transportation Committee, of which William E. McGuirk, Jr., Kuhn, Loeb & Co., 52 William Street, New York 5, N. Y., is Chairman.

Pittsburgh Special Car: This car will be operated via the Pennsylvania RR. from Pittsburgh to Washington, where it will be attached to the New York special train. Pullman reservations for the going trip should be made through A. Lowrie Applegate, Hulme, Applegate & Humphrey, Inc., 586 Union Trust Bldg., Pittsburgh 19, Pa.

Chicago Special Train—Detroit-St. Louis Special Cars: A special train from Chicago to Hollywood, with special cars from Detroit and St. Louis to be attached at Cincinnati, will be operated provided there are sufficient reservations. The route of the train will be New York Central Sytsem from Chicago to Cincinnati, Southern Railway System from Cincinnati to Jacksonville, and Florida East Coast Railway from Jacksonville to Hollywood. The route of the special cars from Detroit and St. Louis to Cincinnati will likewise be New York Central System. Pullman reservations for the going trip (with the exception of the Detroit and St. Louis special cars, for which see below) should be made through Richard B. Walbert, Blyth & Co., Inc., 135 S. La Salle Street, Chicago 3, Ill.

Detroit Special Car: Reservations for the going trip should be made through Ralph Fordon, Fordon, Aldinger & Co., Penobscot Bldg., Detroit 26, Mich. Drawing rooms and compartments will be available.

St. Louis Special Cars: Reservations for the going trip should be made through Harry Theis, Albert Theis & Sons, Inc., 314 N. Fourth Street, St. Louis 2, Mo. Drawing rooms and compartments will be available.

Return Train Arrangements: Return Pullman reservations should be made at Hollywood. Representatives of the railroads will be at the Hollywood Beach Hotel throughout the convention to handle such reservations. No special train has been scheduled for the return trip. This is due to the fact that there has not been sufficient demand in recent years to warrant the operation of such a train. Accordingly, arrangements have been made for special cars on regular trains.

Air Transportation: Special section flights have been arranged between New York and Miami via Eastern Air Lines and National Airlines. Reservations for the special section flights should be made through Harold H. Sherburne, Bacon, Whipple & Co., 1 Wall Street, New York 5, N. Y. Provision can be made so that those desiring to return earlier or later than the flights scheduled above may go one way with the convention group and the other on a regular scheduled flight on either Eastern Air Lines or National Airlines.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government market is backing and filling pending the announcement by the Treasury as how the new money will be raised. A strong tone is evident, nonetheless, in spite of the mild uncertainty that always accompanies financing by the government. There have been plenty of rumors as to how the Treasury will obtain the new funds, with an intermediate or a longer term obligation apparently in the spotlight at this time. It seems as though a short-term obligation is not being given too much consideration now.

According to reports a 3% obligation would not be unexpected since there are supposed to be many that would be very well pleased with such an issue. On the other hand, there are those that are looking for a 2⅞% security with an extension of the maturity over the recently offered obligation. A 2¾% issue is also being talked about which would be a slightly lower coupon rate than the last financing by the Treasury. A package offering may be made, although this idea does not seem to have as much support as in the past.

Maturity Extension Prevalent

Activity and volume in the government market has stepped up considerably, especially in the longer end of the list. It is reported that a large number of institutions are lengthening maturities, with not a few of these moving into the more distant Treasury obligations. The belief that money rates will continue to be easy for some time to come is mainly responsible for the pushing out of maturities. This is being done also in spite of the opinions that long-term financing by the Treasury in the future is quite likely to take place. However, it is not expected that the long-term financing which will be undertaken by the Treasury will have too much of an effect upon the outstanding issues because it should fit into the pattern that has been established by the market itself.

Institutions that have been principally in the short-term obligations are now putting some of these funds into the 2½% issues that are still at a fairly sizable discount. It seems as though the belief is becoming more widespread that the most distant 2½s will continue to go up in price with the easier money policy. To be sure, there will be corrections from time to time but set-backs, according to the many money market followers, should be opportunities to acquire needed issues and advantage should be taken of these developments in the market.

Intermediates Still Favorites

The intermediate term obligations are still among the favored issues in spite of the profit taking which has been going on in these securities. There still seems to be a good demand around for the discount obligations in this group, with some of the buying coming from those that were mainly in the shortest term issues. Corporations in some instances have also been going in the middle maturities, with part of these funds coming from the sale of the shorts and the balance representing new money commitments. The latter type of purchase appears to be a departure from the pattern that most of these corporations have been following of late.

Outstate Banks Active

It is reported that certain of the out-of-town commercial banks which fall more in the savings banks classification and have, according to advices, a fair amount of excess reserves have come into the market for the intermediate and longer term obligations. It is reported that these institutions have shown an interest in the 2⅜s due 1958, the 1½s due 10/1/58, the 2¼s due 1959/62 as well as the 2½s of 1963/68 and 1964/69. There are also reports that these banks have been modest buyers of the 3¼s due 1978/83, mainly on dips, however.

State funds have again been in the market, with the longest term issue, the 3¼% obligation, getting most of the buying from these sources, although it is indicated that some of the longer-term 2½s were likewise taken on at the same time. Private funds were in the market for the longer governments but it is reported that there were more interested in the longer 2½s than in the 3¼% issue.

Tax Selling Operations Persist

Switches and exchanges for tax purposes are as prominent as ever, with indications that the savings banks have assumed a very prominent role in these operations of late. This does not mean, however, that the commercial banks are not doing an important amount of this work because as a whole they are still the leaders in these exchanges when volume and activity are considered.

The partially exempt obligations have been appearing in the market in somewhat increased amounts but these issues are being absorbed without difficulty, with investors taking on these securities, according to reports. The funds which have been obtained from the liquidation of the tax-sheltered governments have been put into the state and municipal obligations, with the state issues getting more of the attention at this time.

National Banks Profits Stable in First Half Year

Gain on capital funds in period was at annual rate of 8.21% compared with 8.22% in 1952.

The Comptroller of the Currency, Ray M. Gidney, reports that net profits before dividends of national banks in the United States and Possessions amounted to $293 million in first six months of the year. The profit total, when figured at an annual rate, amounted to 8.21% of average capital funds. Net profits in the same period of 1952 amounted to $279 million, or 8.22% of average capital funds.


Ray M. Gidney

Net earnings from operations amounted to $624 million, an increase of $93 million over the first half of last year. Profits on securities sold came to $8 million while recoveries on loans and securities, including adjustments in valuation reserves, totaled $29 million.

Losses, charge-offs, and current additions to reserves totaled $96 million while taxes amounted to $272 million.

Gross earnings were $1.5 billion, an increase of $181 million over the six months ended June 30, 1952. Principal items of operating earnings in the first half of 1953 were $854 million from interest and discount on loans, an increase of $119 million over 1952, and $341 million from interest on United States Government obligations, an increase of $41 million.

Two With Walston & Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif. — Warren S. Carter, Jr. and John F. Mulligan have become associated with Walston & Co., 265 Montgomery Street, members of the New York and San Francisco Stock Exchanges. Mr. Carter was formerly Burlinghame manager for Stephenson, Leydecker & Co. Mr. Mulligan was with First California Company.

Limited Currency Convertibility Will Not Work!

By FERNAND COLLIN*
Chairman, Kredietbank, Brussels, Belgium

Prominent Belgian banker maintains any attempt to reestablish currency convertibility on a limited basis, which would prohibit free transfer of capital and dividends, is foredoomed to failure. Contends any prevention of international capital transactions necessarily would lead to control and regulation of all other financial transactions, as at present. Calls limited convertibility a "hybrid system," retaining all present red tape in exchange transactions, while at the same time blocking capital transfers that are essential to a free economy.

International trade is still constantly hampered by exchange control. In a certain measure businessmen have grown accustomed to this very abnormal situation. Having no power to change it, they try to adjust as well as possible to the existing rules. Nevertheless the vast majority aspire after a liberalization of the regulations governing foreign exchange and international payments. It is, moreover, a fact that during the past few years most European countries have achieved very appreciable progress in the monetary sphere. The restoration of a stable balance no longer appears to be either an impossibility or a distant ideal.

Fernand Collin

So much so that in many places the possibilities of a return to currency convertibility are the subject of lively discussions. Nevertheless, most responsible writers and authorities on money matters dare not advocate a return to unlimited convertibility. Such a system presupposes the possibility of exchanging one's own currency for any other currency without prior authorization or legal restriction.

What is considered to be feasible in the near future is the liberalization of current payments only. Payment of goods and services would be generally authorized without undue interference of the exchange authorities. However, capital transfer would remain strictly controlled.

Businessmen all over the world would be greatly rejoicing if this progress were achieved in the near future, and if it could be maintained. I fear, however, that their joy would not be a lasting one.

In the first place this hybrid system would bring no relief of the prevailing red tape. For it entails essentially the maintenance of the whole of the administrative machinery now in force. For, in order to prevent capital transfers, alleged to be prejudicial to the balance of payments, it is necessary to subject to prior authorization every transaction, whatever it may be, involving a payment abroad. The exchange control would, however, refrain from using its powers to influence the spontaneous development of international trade. On the other hand, the system of limited convertibility will certainly prove unworkable after a certain time.

Should Oppose System of Limited Convertibility

Everyone who wishes a return to full convertibility should fight the introduction of a system of convertibility restricted to current payments, and this for three reasons.

(a) There is no valid justification for such restriction.

(b) Capital movements are essential to a balanced free economy.

(c) The system of limited convertibility is bound to break down.

The experts attempt to justify a limited convertibility by pointing to the inadequacy of gold or hard currency reserves in a number of countries, to the political insecurity from which the modern world is still suffering, and to the danger of capital flight. In fact, the flight of capital has been the cause of, or at least the excuse for the introduction of exchange control.

It was the German Government which first took this course. After the first World War they had authorized the financing of reparations, reconstruction and even certain new investments with the aid of short-term credit granted by foreign, mainly American banks. When in 1931 these credits were not renewed currency reserves rapidly dwindled and Germany was threatened with a financial disaster. She accordingly invented exchange control. Other governments followed this example, and the second World War led to the generalization of this system.

Traditionally, the outflow of capital in the form of hot money has been accused of the abolition of freedom in the sphere of foreign exchange transactions. But in a democracy the public authorities have not the means at their disposal to staunch completely the outflow of capital. Transfers "through the official channels" do not constitute the only way of securing the passage of capital beyond the frontiers. Private compensation transactions and agreements between residents and foreigners, under - invoicing and over - invoicing, illicit consignments of the national currency abroad—these are some examples of exports of capital which easily escape the control of the authorities. Bankers, all over Europe, know that anybody who really wanted to, succeeded in sending money outside his own country. Nobody can tell for sure to what extent such an outflow has in fact taken place. Certainly after the events of Korea, the flight of capital has been very important. But, before the war, hot money was, in general, rapidly repatriated after the emergency had passed.

Nowadays, flight capital has a definite tendency to stay permanently abroad mostly because regulations have been broken, and heavy fines can be imposed on those who are caught on the way out or on the way back There is no doubt, therefore, that exchange control has not prevented an important outflow of liquid assets. If this is really so, there is no sense in pointing to inadequate reserves and to political insecurity to justify exchange control. If it is genuinely the fear of flights of capital which is preventing a return to freedom it is more than possible that exchange control has ceased to have any object.

Capital Movements Essential to a Free Economy

Moreover, capital movements are essential in a free economy.

Efforts to secure a balance of *current* payments are liable to meet with only passing success. Temporary unbalance is bound to occur. That is the main reason why gold and hard currency reserves are needed.

Experience has nevertheless shown that a country may well have an adverse balance of current payments without being any the worse for it. Many countries have spent more than they have produced, invested more than they have saved. This they have been able to do with impunity by attracting foreign capital in the form of long-term investments.

Such was the case with the U. S. A., Canada, South Africa and even Switzerland, during the second half of the 19th century. Nowadays, the normal and inevitable gaps in current transactions are filled by the granting of official credits. This procedure, too, is a form of exportation of capital that the state is compelled to tolerate in order to avoid the economic and social consequences of the loss of a market.

But those loans concluded between states are the least recommendable form of exportation of capital. They maintain existing lack of balance and they usually benefit the least solvent countries. They amount, in fact, to a drain on the budgets of the creditor countries. On the one hand it is to be feared that the taxpayers will quickly revolt against the resultant burdens. On the other hand these operations have a distinctly inflationary effect on the creditor countries, unless they are financed by savings. Such a policy is, therefore, only an expedient which can never last long. It is only a makeshift solution which is justified in extraordinary situations. One cannot hope that its contribution to the restoration of financial equilibrium will be a permanent one. It is abundantly clear that public opinion in America as in all the creditor countries is more and more opposed to any such form of financial assistance, and this is certainly not due to any change in the remarkable generosity of which the American people gave ample proof in the past.

But this is the recognition of the simple fact, that those handouts do more harm than good.

However, the absolute necessity of a constant and regular flow of capital from the rich countries to those whose development is insufficient or has been retarded, will become more and more evident. Salvation, then, does not consist in the restriction of movement of capital.

Limited Convertibility—A Hybrid System

Therefore, the hybrid system of limited convertibility will always be in great danger of breaking down, and if it failed, a return to any form of convertibility would be indefinitely postponed. Exchange control would again be firmly established, so much the more, that some seem to admit that these regulations constitute an improvement on the previous order, with its cyclical crises and its inevitable lack of equilibrium.

But full convertibility will not necessarily result in an abundant flow of capital to the countries which need it. Such a flow cannot be commanded; it must be deserved. Money — at least good money—cannot be forced to invest itself. It will take time to reestablish confidence, the credit which many governments have wantonly dissipated during the last years. But this is an indispensable step towards any lasting return to the freedom of international payments.

The governments, especially those of countries which have a leeway to make up on North America, should make an all-out effort to deserve the confidence of all those which have unused available resources. Instead of blocking former investments, they should gradually liberate all foreign assets. They should not even try to prevent the exodus of floating capital, of the so-called hot money. The Central Banks are sufficiently armed to check such disorderly movements, to which the authorities like to attribute the disparities they dread so much. On the contrary, if a lasting financial equilibrium has been restored, by sound monetary policy, a great deal of the money that has escaped control will readily repatriate, at least if no undue stress is laid on the necessity of punishing offenders.

It is only by building up confidence with patience and perseverance that private capital will be brought gradually to move again over the frontiers. At that moment convertibility, full convertibility, shall no longer present a problem.

*An address by Mr. Collin at Luncheon of Belgian Chamber of Commerce in the U. S., Inc., N. Y. City, Oct. 14, 1953.

Continued from page 15

Loss Reserves for Investments Of Life Insurance Companies

vides much greater stability in the valuation of stocks than is now permitted will have to be devised. Under existing rules, those companies which are subject to a statutory limitation on surplus are now held in a vise by the requirements (a) of market prices of Dec. 31, (b) of the limitation on surplus, and (c) of departmental requirements that any reserves which may be established for stocks must be treated as a part of surplus, except to the extent that this was changed by the June 1953 resolutions of the NAIC permitting the setting aside in the reserve in 1953 of 1% of the asset value as of Dec. 31, 1953 of stocks (but permitting losses, realized or unrealized, to be charged against this, so that as yet it cannot be said to rest on a very solid foundation).

U. S. vs. British Companies

Preferred stocks have been permissible investments for practically all insurance companies since the 1920s and common stocks became permissible within narrower limits mainly during the 1940s and 1950s. However, in the latest Joint Investment Bulletin of the ALC and LIAA, No. 191, Sept. 30, 1953, it is shown that the total of stocks, preferred and common, held by 49 companies with 88% of the assets of the industry as of Aug. 31, 1953, was only 2.8% of total assets. This may be compared with investments by British life insurance companies, which are free to set up such reserves as they deem necessary. Most of the 22 shown in the 27th Annual Life Assurance Number of "The Review," Nov. 21, 1952 (Page 1127) held more than 10% of their assets in preference and ordinary shares in 1950 and 1951, many held over 20% and some held above 30%.

It would, of course, be impossible to ascertain and weigh all of the reasons which have led those responsible for the investment policies of life insurance companies in this country to invest such a small amount in stocks. There are doubtless several reasons and they have doubtless weighed differently with different managements. It is unquestionably true, however, that the method of valuing stocks has influenced the thinking of management. I know that this is so in cases of which I have personal knowledge and I imagine that the influence of the valuation method pervades the industry. On reflection, it would seem that it could not be otherwise, because every investment officer and committee formulating investment policy knows the market fluctuations to which stocks are subject and must calculate the extent to which such fluctations may decrease a surplus very seldom more than 10% of assets and often substantially less. This would be the case whether a company is subject to the surplus limitation laws or not. A 10% drop — not very much — in the market prices of stocks aggregating only 5% of total assets would take over ½% off surplus (keyed as it is to policy liabilities rather than assets). Investment officers and committees must think twice before they will invest much in a form of investment which can never be large, but which, because of the fluctuations in the single type of investment alone, can so easily reduce surplus to such an extent. This is a clear instance in which the lack of a better system of valuation has placed a very definite practical limit on management discretion.

It may well also have been an influence on the amount of stock financing. There are, of course, other factors, such as tax advantages, the advantages of debt obligations in the cost of money, less now than formerly, and the dilution of ownership, which an issuer takes into account in selecting a medium of financing. It is also true, however, that at any time, and particularly in periods of higher interest rates, what the market wants has an influence on the form of financing industry does. The investment policies of institutional investors may well influence the supply of stocks, especially preferred stocks, available.

A Stock Reserve Plan

One method of accumulating a reserve for stocks would be to set aside the earnings in excess of the rate required on a company's contracts or the earnings in excess of the earnings on other investments. This could well provide an annual addition to the reserve of from 2% to 3% of the cost of the stock portfolio. Even so, it would take a fairly long time to build up a substantial reserve and the companies would probably proceed by starting out slowly, gradually widening the portfolio as the reserve accumulated. The important thing, it would seem, is to get started. From this standpoint, it is fortunate we are engaged in a long-term business, because a mere change in regulation will long precede the accumulation of conservative reserves,—unless they happen to be built up in part by increases in market values.

Various proposals to meet the valuation situation have been made. In 1945, the Investment Research Committee of the Life Insurance Association of America made a proposal regarding preferred stocks. This was limited to preferred stocks which yielded not more than a prescribed ratio above the yield on a selected list of high grade preferreds. As to preferreds which met this test, it was proposed that one-fifth of the difference between the market value of the stock at the end of the previous year and its value for the year for which the financial statement was made should be added to or subtracted from, as the case might be, the previous year's market value. This came to be called the "average market value method." This proposal did not involve the use of reserves for the selected list, but, on the other hand, it did not suggest a method for stabilizing the value of preferreds which did not meet the yield test or of commons. It could certainly be made applicable to a wider range of preferreds than that contemplated in the proposal then made if a reserve was also provided. It might also be adapted to commons.

Stocks, of course, differ fundamentally from bonds and other debt obligations in that stocks generally have no maturity date and their value, even on a long-term basis, is therefore more closely related to market, at least to market trends. This last is particularly true of common stocks whose value is generally directly related to trends which over the long-term are reflected in market values. The idea of having adjustments, within a range which financial statements could stand, made each year in the direction of market changes would seem to have a good deal to be said for it, particularly if some reserve was provided to make up for any long-term lag between the financial statement value and market value, as well as, of course, to absorb actual losses which might be suffered.

The Joint Committee's Report of April 10, 1951 recommended that preferred stocks not in default and yielding not in excess of ½% in excess of the average yield on a selected list of preferred stocks adopted by the Committee on Valuation of Securities, NAIC, and preferred stocks of equivalent quality which had no public quotations, be treated on the same basis as bonds of the first class and that all other preferreds which were not in default be treated as bonds of the second class. Broadly speaking, all of these preferreds were to be carried at cost or at cost amortized over a 50-year period to a price producing a 5% current yield. On going into default, writedowns to market were to be charged against the reserve. This suggestion doubtless recognized that, despite the absence of a maturity, preferred stocks may be expected to have market values which, on a long range basis, are fairly close to par, subject to changes in interest rates and, of course, to a certain volume of losses. The letter of the Chairman of the Committee accompanying the Report stated, that while the Committee preferred this method of valuation, it would see no objection to the use, as an alternative, of the so-called "average market value" method along the general lines proposed by the Investment Research Committee in 1945 if the Commissioner desired.

The Joint Committee made no recommendation for stabilizing common stocks.

A less formal suggestion has been made, however, that common stocks also be carried at cost, after provision of whatever reserve is deemed to be adequate. This suggestion also recognizes that the market value of common stocks as a whole has been upward over a very long period of time. There have, of course, been very violent fluctuations in value, and for this reason this suggestion contemplates that the reserve established will be substantial.

A slightly different suggestion is that a reserve be provided for common stocks amounting to possibly 50% of whatever their market value happens to be at any time, but that instead of being carried at cost, they be carried at market value, all fluctuations being charged against the reserve. Whenever such a reserve is used up, fluctuations would, as before, have to be charged against surplus.

Although no method has yet received the approval of the NAIC, they indicated, by providing for commencing to accumulate a reserve based on a percentage of the asset value at the end of the previous year of stocks, preferred and common, that a reserve is expected to play some part in the method of stabilization ultimately adopted. Their action was avowedly tentative and applied only to 1953, but it is most encouraging to find that this problem is now receiving active consideration. Reserves can be built up only over time and the sooner the accumulation is commenced, the sooner will they serve the ends which they are designed to accomplish. Details as to their use and even their size can be filled in later, though the general pattern should not be difficult to formulate in view of the great progress already made.

Conclusion

I hope, that if this paper succeeds in doing nothing else, it will succeed in stimulating some further discussion of a subject which is very much alive today and which I think can have an important influence on our business.

As I have already said, great strides were made, first, in the action of the NAIC in December 1951 when the principle of a securities reserve was adopted and the initial rules laid down and, second, in the much further refinement of those rules in June of 1953. This was preceded by much work and thought on the part of industry committees over a very much longer period of time. The progress made has been very real and has been, of course, made through the cooperative efforts of the regulatory authorities and the industry.

The questions on the securities reserve which remain—as all concerned recognize—are important. Some of them need much further research and debate. One danger is, it seems to me, that if these questions, especially those relating to the size and use of the reserve, are not decided correctly, and with a full appreciation of what is involved, the new system may not work during its first real test as it is expected to work and as it is capable of working, and this may discredit a system which is basically sound and beneficial.

Even more needs to be done, of course, on the reserve for stocks. Here the progress must be viewed as very slow, and the companies remain completely shackled so far as entering this field more than a very little way—and entering it on a conservative basis, which is the only one on which it should be entered—is concerned. They will remain so until a better system of valuing stocks is adopted. In this field, they are far behind other and sometimes competing institutions.

So far as mortgage loans go, it seems clear that after the exceptionally long period of prosperity the country has been in, and is still in, they are now considerably overvalued as long-term investments—unless one is sufficiently optimistic to accept the thesis that depressions are a thing of the past or that the amortization feature has eliminated the risk of loss.

As to the reserves for all three investment types, it would seem that there is one basic question common to all, though so far appearing to manifest itself only in the securities reserve, since it is the only one which has begun to take real form. This question is whether the pattern being established is not too rigid, whether the pattern should not be made substantially more flexible through reposing the same discretion, and responsibility, in management in relation to the asset side of the balance sheet that is now reposed in relation to the liabilities side. Certainly there is room on the asset side for as great legitimate differences of informed opinion, probably considerably greater. Management is closer to the individual company situation, its possibilities and its problems, than anyone else can possibly be; and flexibility is generally better than rigidity — flexibility within the limits of safety, on the one side, and equity to participating policyholders, on the other. There is a wide area in between, an area which should provide latitude in which initiative, enterprise and ingenuity, the keys to progress in so many lines of endeavor, will have ample room to exert themselves.

In none of these problems is there in any sense a contest between management and regulatory authorities. They are matters in which both have a common interest, matters which can be and should be worked out with the most complete sympathy and understanding between them, and the ends should always be to try to set up a system which will produce the best results for the insuring public — our policyholders. That spirit accounts for the progress made to date, and it is in that spirit that the problems which remain are, I believe, being attacked.

Quigg in NY Office of Paine, Webber

James F. Quigg, Chicago partner of Paine, Webber, Jackson & Curtis, has moved to the New York office, 25 Broad Street, to direct an enlarged national municipal bond department for the coast-to-coast investment banking firm, it has been announced by Lloyd W. Mason, managing partner.

James F. Quigg

Mr. Quigg has been active in midwestern municipal bond circles for many years. He joined the bond department of the Mississippi Valley Trust Company of St. Louis on his graduation from Northwestern in 1922 and remained with them until he joined Paine, Webber in 1943. At the time he left Mississippi Valley Trust he was Manager of the bond department and Vice-President of the Mississippi Valley Company.

Mr. Quigg is a former Secretary, Vice-Chairman and Chairman of the Mississippi Valley Group of the Investment Bankers Association and was Governor of the I. B. A. 1940-43. He was also an active member of the Chicago Bond Club and the Municipal Bond Club of Chicago. He has been a general partner of Paine, Webber, Jackson & Curtis since 1950, directing municipal bond activities from Chicago.

With Dean Witter Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif. — Ralph G. Dalton has become affiliated with Dean Witter & Co. 632 South Spring Street.

Joins du Pont Staff

(Special to THE FINANCIAL CHRONICLE)

PASADENA, Calif. — James R. Pitcher, 3rd has joined the staff of Francis I. du Pont & Co., 723 East Green Street.

With Schwabacher Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif. — Clarence J. Richardson has become connected with Schwabacher & Co., 600 Market Street at Montgomery, members of the New York Stock Exchange. He was previously with Walston & Co.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week — Insurance Stocks

The reinsurance segment of the broad insurance industry is not generally understood by the public at large and is one which has received only limited attention from investors.

Part of the reason for this arises from the specialized function of the service reinsurance companies provide. An additional consideration is that although many of the large insurance groups engage in reinsurance activities, there are only a small number of domestic companies devoted to reinsurance as their primary activity.

This does not mean there are not attractive investment opportunities in this field of reinsurance. In fact there are certain characteristics of reinsurance companies which tend to contribute to their strength under varying economic conditions.

In this connection The First Boston Corporation, New York, one of the leading investment banking houses, has recently published an investment study entitled "Reinsurance." In addition to covering a subject matter given little publicity in the financial and investment community, the report is interesting in a number of other respects. It reviews the salient features of the reinsurance industry and also presents a detailed analysis of three of the leading American reinsurance organizations. The companies reviewed include: General Reinsurance, American Re-Insurance and Employers Reinsurance.

COMPARATIVE CONSOLIDATED STATISTICS THREE REINSURANCE COMPANIES

	General Reinsur. Group	Amer. Re-Insur. Group	Employers Reinsur. Corp.
Number of shares outstanding	550,000	400,000	200,000
Par Value per Share	$10	$10	$10
Approximate Market Price (10-7-53)	35½	40	54½
Current Annual Dividend Rate	$1.60	$1.20	$1.60
Yield	4.51%	3.00%	2.94%
Net Investment Income per Share	$3.88	$3.52	$5.12
Dividend Rate as % of Net Investment Income	41.2	34.1	31.3
Market Price Times Net Investment Income	9.1	11.4	10.6
Net Operating Earnings per Share	$3.56	$3.22	$11.33
Total Admitted Assets	$94,109,000	$65,193,000	$52,414,000
Total Liabilities	67,544,000	47,696,000	42,338,000
Net Worth (Policyholders' Surplus)	$26,565,000	$17,497,000	$10,076,000
Net Worth to Total Liabilities (%)	39.3	36.7	23.8
Net Worth to Net Premiums Written (%)	75.8	72.7	67.2
Net Worth per Share	$48.30	$43.74	$50.38
Estimated Liquidating Value per Share	$66.33	$60.68	$70.05
Market Price as % of Net Worth (Policyhldrs.' Surp.)	73.5	91.4	108.2
Market Price as % of Estimated Liquidatig Value	53.5	65.9	77.8
Net Premiums Written	$35,066,000	$24,054,000	$15,002,000
% Fire Lines	41	40	20
% Automobile Bodily Injury & Property Damage	24	20	30
% Workmen's Compensation	6	5	9
% Fidelity	5	7	4
% Surety	11	23	16
% Other Lines	13	6	21
Combined Loss and Expense Ratio 1952	98.3%	98.1%	92.1%
Average Combined Loss & Expense Ratio 1948-1952	97.4	102.4	108.5
Average Combined Loss & Expense Ratio 1943-1952	97.4	96.5	100.9
Ratio of Loss Reserves to Premiums Earned (a)	160%	164%	187%
Cash & U. S. Government Bonds as % of Portfolio	46.8	52.3	65.6
% of U. S. Governments due in less than 5 years	54.7	65.1	97.0
Cash and All Bonds as % of Portfolio	74.7	74.8	90.8
% of All Bonds due in less than 5 years	50.1	53.0	75.8
Preferred Stocks as % of Portfolio	8.4	5.5	0.3
Common Stocks as % of Portfolio	16.9	19.6	8.7
Cash and All Bonds as % of Total Liabilities	99.4	97.0	111.1
Percentage Increase 1947-1952:			
Total Admitted Assets	62.9	70.5	47.1
Net Investment Income	107.2	60.3	51.9
Net Premiums Written	38.2	68.0	—22.2
Policyholders Surplus	59.0	31.7	—15.5
Estimated Liquidating Value	60.5	40.5	—15.7
Market Value per Share	77.9	40.0	—31.6

NOTE—Unless otherwise noted figures relate to year ended Dec. 31, 1952. All large dollar figures rounded out in thousands. (a) Excluding fire subsidiaries.

In spite of the operating difficulties under inflationary conditions such as have prevailed for the past five years, the companies have made marked gains in admitted assets and investment income.

If there is a moderate downturn in business as many economists and business forecasters now expect, there will be less of a need to build up loss reserves as has been the case in recent years. This in turn would be reflected in improved undewriting results.

To some extent this factor, together with a better rate structure, have been reflected in the loss and expense ratios for the first six months of the current year as compared with those for the similar period of a year ago.

	Loss and Expense Ratios First Six Months 1953	1952
General Reinsurance Corp.	94.4%	106.0%
American Re-Insurance Company	94.3	105.1
Employers Reinsurance Corp.	91.2	95.1

Based upon the results achieved so far and the trends now in operation there is considerable reason to be optimistic about the operating outlook for these companies.

The First Boston study reviews these factors and other considerations which should be considered in formulating an investment decision on companies in the reinsurance industry at the present time.

Joins Turner Staff

(Special to THE FINANCIAL CHRONICLE)

SAN JOSE, Calif. — Gerald L. Robertson has joined the staff of Lola Turner & Co., Bank of America Building.

With Carroll, Kirchner

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo.—John L. Talbott has become associated with Carroll, Kirchner & Jaquith, Inc., Patterson Building. Mr. Talbott was formerly with Gray B. Gray & Co.

Sterling Area Fearful of U. S. Trade Recession

By PAUL EINZIG

Dr. Einzig points out even a slight depression in U. S. would cause slump in U. S. buying of Sterling Area goods, and thus widen the dollar gap. Says, if such eventuality materializes, sterling convertibility would be put on shelf, and exchange and trade restrictions will become more severe.

LONDON, ENG.—There is reason to believe that one of the main topics that will be discussed at the Commonwealth Finance Ministers' Conference in January will be the measures that the Sterling Area should take in case of a trade recession in the United States. Following on a wave of optimism about American business prospects, British opinion now appears to be less confident about the ability of the Washington Administration to prevent a setback in trade. It is pointed out in the British Press that new orders for capital goods and durable consumer goods have now largely overtaken the backlog of demand that developed in 1951. This is interpreted as foreshadowing business recession in the United States, though opinions differ about its probable extent.


Dr. Paul Einzig

It is realized in London that even a comparatively moderate business recession in the United States, such as the one experienced in 1949, is liable to upset the precarious equilibrium of the Sterling Area's balance of payments. It is recalled that although in 1949 the decline of the national income of the United States was merely 5% during the period of recession, it resulted in reduction of Sterling Area exports to the United States by some 20%. A comparable reduction in the dollar earnings of the Sterling Area would reverse the flow of gold and would soon reduce the Sterling Area gold reserve to danger level.

For this reason, while everybody in Britain and in the Sterling Area is hoping and praying that, if the trade recession in the United States is inevitable it should be very mild and of short duration, it is necessary for the Sterling Area Governments to prepare for the worst. This is what they are expected to do when they meet in Sydney in January. While they will consider the possibility of proceeding with the convertibility plan in due course in the absence of an American business recession, they are also likely to consider measures which should be taken in common agreement in face of the consequences of such a business recession.

In the first instance it is safe to assume that, at the first indication of a recession in the United States, the Sterling Area countries would stop any further progress towards liberalization of trade and exchanges. The convertibility plan would be put into cold storage until the adverse spell has passed.

At the same time steps would be taken to cut down dollar imports to an extent corresponding to the decline of dollar exports. Import restrictions, unpopular as they are, would be resorted to once more. This time it would be easier to apply them than it was in 1949 when owing to the world-wide shortage of many kinds of goods there were no alternative supplies in them to those of the United States. This is true also today in respect of a number of goods, but the proportion of goods with alternative supplies has increased considerably during the last four years. Generally speaking stocks are also higher, so that the dependence of the Sterling Area on the Dollar Area has declined. Even so it would be idle to minimize the inconvenience caused by the need for curtailing dollar imports.

The Commonwealth Finance Ministers' Conference is likely to elaborate measures aiming at an increase of trade within the Commonwealth. This would be done if possible within the framework of GATT but, should the balance of payment situation become grave, it is conceivable that Britain and other Sterling Area countries might even feel reluctantly compelled to break away from GATT if that organization should attempt to prevent measures which in the circumstances are considered to be of vital importance.

The possibility of another dollar crisis through a business recession in the United States is likely to induce the Commonwealth Finance Ministers to elaborate a long-term program of intensified investment within the Commonwealth. The object of such a program would be to reduce further the dependence of the Sterling Area on the Dollar Area, by increasing the production of dollar-earning or dollar-saving goods. In view of the uncertainty of the American market for Sterling Area exports the accent is likely to be on the latter type of production. Britain experienced three dollar crises since the end of the War and the advent of a fourth this year or next year would greatly strengthen the influence of those who believe that the solution lies not in efforts to increase our sales to the United States but in effort to reduce our purchases of American goods. This would be widely deplored but a dollar crisis in the not too distant future would convert many people in favor of such a policy.

Finally, the possibilities of expanding trade with the Communist countries in case of a dollar crisis are also likely to be considered at the Sydney Conference. Today the majority of those favoring an increase of East and West trade are inspired by political motives. An American business recession and its effects on Britain's balance of payments would greatly increase the number of those favoring East-West trade even if they are politically out of sympathy with the Communist countries. Many people would reach the conclusion that an increase of trade with the East was in the circumstances a necessity not only from an economic point of view but also from a political point of view. For any unemployment or decline in the standard of living resulting from a scarcity of dollars would greatly strengthen the Communist sympathies of the British working classes.

Thus, from the point of view of the security of the democratic West the choice would be between supplying the Communist countries with goods they need and allowing Britain's resisting capacity to Communism to weaken. In view of the strength of Communism in Western Europe its weakness in Britain is one of the most gratifying features of the international situation. It would be well worth while to put up with the disadvantages of supplying goods to Communist countries for the sake of maintaining Britain as an anti-Communist bastion.

Continued from page 14

Government Electric Power Invades Free Enterprise

Further striking proof of the industry's ability to meet the nation's requirements is evidenced by the contract signed last year by the Ohio Valley Electric Corporation to supply 1,800,000 kilowatts of electricity to the new atomic plant of the Atomic Energy Commission being built in Pike County, Ohio. That's 2,500,000 horsepower. This agreement calls for the largest block of power contracted in industrial history. Ohio Valley Electric was formed by 15 private electric companies, already doing business in Ohio and neighboring states, to meet this unprecedented demand of the government for power. Two huge steam power stations—one in Ohio and one in Indiana—and connecting transmission lines are now under construction to supply this energy. Financing in the amount of $440 million has been arranged through private capital and included the largest direct placement of a single issue of securities in the history of the investment banking business: $360 million through the sale of 3¾% bonds to 29 insurance companies, seven pension funds and two savings banks, $60 million through the sale of unsecured notes to twelve banks and two pension funds, and $20 million to be supplied by the sale of common stock to the sponsoring utility companies.

Why Government in Business?

In the light of the foregoing one might ask: Why should the government go into the power business? Is it a function of government—to be in proprietary business in competition with its citizens? Government in the power business is a threat to all private business and without private enterprise there cannot long remain real individual freedom. We in the utility business see this matter of government encroachment in the power field as extremely important to every other industry and to each citizen as well. For make no mistake—if government can go into the power business, it can go into the shoe business, grocery business, automobile business, or any other business, including farming. And it is now. The 100 activities I mentioned show how the trend has been developing. There is no limit to government competition with business, if the public does not check the practice.

Government may properly impose reasonable safeguards upon business in the public interest but should not operate business. It should not play in the game for which it makes the rules. In other words, government should not try to be referee and quarterback at the same time.

Our Federal government needs tax monies to operate and every industry should pay its fair share of taxes for this purpose. Where government goes into proprietary business, it should pay taxes to the same extent and on an equal basis with investor-owned proprietary business; otherwise, the customers of private business will not enjoy the same advantages as customers of government in business. But quite the opposite is true. Government in business pays no Federal taxes and makes little, if any, payments in lieu of state or local taxes, and in some instances the interest against the capital it employs is not charged against the government proprietary operation. In those instances where interest is charged, it is at a rate obtained from the issuance of government bonds, which rate is far below what industry must pay in the same money market, because of the nature of the credit behind the obligation—no credit being better than the Federal government's. Further, there are often other items of expense absorbed by the government and not charged to government proprietary operations. This is unfair for it results in customers of private business subsidizing customers of government business.

If the government with the monies of its citizens is going to compete with them in business, it should operate government proprietary business on an equal basis with private proprietary business, charging to its business the true costs of doing business and not base government proprietary business prices on subsidized costs at the expense of the customers of private business and the general taxpayer. Further, the Federal government going into proprietary business is one of the reasons our national debt is at the present level of approximately $273 billion.

The Burden of Taxes

Some men of finance are warning that the American investment system cannot long survive its present heavy and destructive load of taxation. This load can be more equitably distributed if government enterprises are taxed equally with private businesses with which they compete. And further, the sale of such facilities could help reduce the national debt.

One might ask, if the customers of the government can obtain their commodities or services cheaper, why not have government displace all proprietary business? If this took place, where would our Federal tax monies come from? Would we not end up with complete nationalization of business with everyone working for the state?

In its operations in the power field, the Federal government in most cases, as previously mentioned, pays little, if any, state or local taxes. Since these Federal power operations enjoy benefits provided by local governments, they should pay their fair share of the cost of such benefits. Congress should authorize state and local governments to levy taxes against the power facilities and power business of Federal agencies on the same basis that such taxes are levied against private business.

There are several precedents for this recognition of the obligation on the part of the Federal government to assume part of the costs of local government. In the District of Columbia, the seat of the national capital, the Federal government, according to Moody's Manual, pays over 10% of the costs of the district's operations. The Federal government also contributes or pays local government costs in some areas where plants of the Atomic Energy Commission are located and in other instances pays substantial sums for schools and other government purposes. In recent years the property holdings of the Federal government have greatly expanded throughout the nation and the principle that caused Congress to assume a share of the cost of certain local government operations should reasonably be applied generally throughout the nation and particularly to a Federal government proprietary operation.

Another discrimination practiced by the Federal government in the power business is the preference which Congress has decreed shall be given to public bodies and cooperatives in the sale of electricity from Federal government projects. This discrimination against the customers of the private companies is unfair and un-American. It should be eliminated so that customers of private enterprise, cooperatives or government operations will be treated alike.

As long ago as 1945 the electric utility companies of this country publicly stated their position with respect to river development in advertisements appearing in national magazines. The declared policy:

"If power is produced at government-built dams, it should be sold to existing power systems, without special privilege or discrimination. This will save the expensive duplication of transmission facilities, help to co-ordinate the entire power supply of each region, and assure its widest possible use at the lowest practical rates.

"Any savings made possible by this plan should be passed along to the users of electricity, under regulation by State Commissions or other properly constituted regulatory bodies. This will assure all the benefits of river development and hydro-power without the added expense of government going into business and competing with its own citizens."

Signs of a Change

There are a few signs at long last that indicate some change for the better may take place. The Department of Interior recently issued a statement of power policy which recognizes that private capital should have an opportunity to participate in the development of water resources along with local government agencies and with the Federal government. Under this stated policy the Federal government remains in the power business on a large scale and may expand its holdings, but does back away from assuming full responsibility for the power supply of extensive river basins, a responsibility which, when backed by huge appropriations from the Federal treasury, would inevitably lead to the nationalization of power throughout the nation.

The effect of the new policy will depend largely on interpretations by Federal department, bureau and agency officials and these interpretations, in turn, are bound to influence public sentiment in the areas where government power is being or would be supplied.

The new policy of the Interior Department can remove only part of the discriminations against the customers of the power companies. Clearly, there cannot be important encouragement to private capital until the unfair tax and other discriminations are removed by Congress.

Another indication that the government may reduce its competitive business operations is seen in the decision to sell the Inland Waterways Corporation. This government enterprise operated barge lines on the Mississippi and tributaries and on several rivers in southeastern states. On July 24, 1953 these government holdings were sold to the newly-organized Federal Waterway Corporation, a private business, for $9 million. From 1939 to 1952, the government corporation piled up losses totaling nearly $10 million, losing money in 12 of the 14 years, and paid no taxes to the government.

A further indication is that on July 30, 1953 Congress passed the so-called Shafer Act creating a three-man Commission to negotiate sales of the Federal government's synthetic rubber plants and to submit to Congress by January 31, 1955 a full report on all sales contracts negotiated along with their recommendations. With the right reserved to Congress to have 60 days in which to disapprove these recommendations. The synthetic rubber industry was developed by the government during World War II at a cost of $700 million. Some facilities were sold after the war, but 28 plants, costing about $525 million, remain in government hands.

In July 1953 legislation was also enacted setting up a new bipartisan commission of 12 men to make recommendations looking to the reorganization of the executive branch of the Federal government by (1) abolishing unnecessary government functions, (2) reorganizing regulatory agencies, and (3) recommending ways to eliminate inefficiencies arising from interdepartmental relations. Such recommendations could include doing away with government corporations found to be competing unfairly with private business or abolishing functions that could best be exercised by states and muncipalities.

In conclusion, these problems of government in business and the preservation of our system of free enterprise must in the final analysis be adjudicated in the court of public opinion. It is for that reason that I chose to discuss these problems with such a cross-section of America's citizenship as is represented here today. The solution will be made easier and will come sooner when the public is fully advised of the problems and the inequities that exist and how the public will be benefited by the fair and proper solution or elimination of these problems.

Finally, let us take to heart these words of Thomas Jefferson: "The best government is that which governs least"; and who said in his first inaugural address:

"A wise and frugal government, which shall restrain men from injuring one another, which shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned—this is the sum of good government."

John Large Now With C. J. Devine & Co.

C. J. Devine & Co., 48 Wall St., New York City, has announced that John W. Large has joined the firm as a member of its municipal department. Mr. Large has for the past 18 years been a member of the municipal bond department of the Chase National Bank.

Midwest Exch. Members

CHICAGO, Ill.—The Executive Committee of the Midwest Stock Exchange has elected to membership: Alan T. Calhoun, Calhoun & Co., Spartanburg, S. C.; E. Alan Kurzka, Chicago, Ill.; and Elbridge S. Warner, Hayden, Miller & Co., Cleveland, Ohio.

With Amott, Baker

PHILADELPHIA, Pa. — G. E. Peter Toebe as joined Amott, Baker & Co., Inc., as Assistant Manager of their Philadelphia office, 1420 Walnut Street.

Public Utility Securities

By OWEN ELY

New England Gas & Electric Association

New England Gas & Electric Association is the smaller of the two New England holding companies which control a substantial proportion of the utility business in that area. Annual revenues approximate $37 million compared with $105 million for New England Electric System; revenues are approximately 61% electric, 37% gas and 2% steam heating.

NEGEA controls five electric companies, two gas companies and one combination company. Two subsidiaries, New Hampshire Electric Company and Kittery Electric Light Company, will eventually be disposed of, and negotiations for such sale are currently in progress. In addition to these fully controlled subsidiaries, NEGEA has a 34.5% interest in Algonquin Gas Transmission Co.

The System furnishes electric service to 136,000 customers in Massachusetts and 23,000 in Maine and New Hampshire, in some 78 communities and surrounding territories; gas is furnished to 170,000 customers in 39 Massachusetts communities; 10 municipalities get both electric and gas service.

Electric revenues in the 12 months ended June 30, 1953 were 37% residential, 22% commercial, 28% industrial and 13% miscellaneous. Industry in the territories served is highly diversified. The more important industries are textiles and textile machinery, machine tools, steel and steel wire, rope and cordage, soap, candy, rubber, carpets, paper and paper products, gypsum products, and cranberries, and in addition include numerous small plants manufacturing a wide variety of other products. While some large textile factories in the New Bedford area have been abandoned as the companies moved southward, most of these buildings have been re-occupied by a number of diversified small industrial units. Important recreational and vacation territories served include Cape Cod, Martha's Vineyard, and Plymouth and surrounding territory in Massachusetts, and Portsmouth and surrounding territory in New Hampshire, and this provides a well-balanced load factor to stabilize year-round operations. Among the customers served are several of the important educational institutions in New England.

The System has four steam generating stations, two in Cambridge, one in New Bedford and one in Portsmouth (New Hampshire); it is also interconnected with Boston Edison Co. Of the total effective capability of 247,000 kw. in the steam generating plants, about 40% was installed since 1947 and 60% prior to 1946. The use of new high pressure equipment installed in the last ten years has increased the overall efficiency.

NEGEA now obtains practically all its gas requirements from two natural gas pipe lines, Algonquin and Northeastern. After about two years' delay due to litigation, Algonquin recently received its certificate of convenience and necessity from the FPC and began operations. In addition to the two pipelines, NEGEA also has efficient standby oil-gas manufacturing facilities. At present these will be operated only on a peak shaving basis, but will provide a 100% standby set-up which is unusual. System sales of gas are expected to about double in five years, due in part to anticipated increase in house-heating sales. Instead of endeavoring to obtain additional natural gas, NEGEA will use its manufacturing plants (already designed to supply about 1,000 BTU gas) to take care of the additional load. It may be necessary to add some propane equipment during the fourth and fifth years.

Since customer appliances were converted to high BTU gas some time ago, the current transition to natural gas (for cities served by Algonquin Gas) is not expected to raise any problems. Former conversion costs have been amortized on a 10-year basis.

All of the oil-gas manufacturing sets (in four cities) have either been built or reconstructed from water-gas sets since 1947. They are adapted to use of cheap Bunker oil, and it is estimated that New Bedford plant can produce gas at a holder cost of 53c per mcf. (based on present price of oil) about the same as natural gas. However, if natural gas had not been contracted for it would have been necessary to build additional plants and incur about $1 million capital costs over the 5-year period.

While the gas companies are already earning an average of about 5% to 6% on the rate base as allowed by the Massachusetts Commission, some increase in earnings is expected before any question of reducing rates might be encountered. Eventually income may also be received on the Algonquin Pipe Line stock in which NEGEA has invested about $4.7 million, but dividends are probably several years away because of sinking fund requirements, etc.

NEGEA recently offered about 200,000 shares of common stock on a 1-for-10 subscription basis at $13.75 per share. Based on the average shares to be outstanding in 1953 including this offering, President Campbell expects the company will earn about $1.40 in the calendar year. For 1954 he has forecast the same amount based on the actual shares to be outstanding at the end of that year.

The common stock record has been as follows in recent years, earnings being based on average shares outstanding:

	Earnings	Dividends Paid	—Price Range— High	Low
12 Months Ended June 30, 1953	$1.40	$1.00	----	----
Calendar Year—				
1952	1.27	1.00	15⅝	14
1951	1.22	1.00	15⅞	13⅜
1950	1.52	0.95	15⅞	12¼
1949	1.56	0.85	14⅜	9⅞
1948	1.31	0.80	12	9⅞
1947	1.13	0.40	12½	9¾

The stock is currently selling around 15 to yield about 6.67%.

New Discoveries and Inventions

By ROGER W. BABSON

Mr. Babson lists eleven fields of new discoveries and inventions, among which are: Indestructible plastics; commercial isotopes; the mechanical brain; vending machines; broadcasting of electric power; improved conveyer belts; solar radiation, and automatic factories. Says talk of making prosperity permanent by legislation "is sheer nonsense."

Let me name some new discoveries and inventions which are now progressing:

(1) *Indestructible Plastics* which will not bend or rust, crack or split. These are based on certain new chemical compounds. They will be used for everything, from houses and bridges down to automobiles, and even soft goods.

Roger W. Babson

(2) The production and use of *New Metals and Alloys*. There are less than 100 elements, but these can be put together in millions of different alloys, of which only a small fraction has now been tested. These new alloys offer great opportunities for development.

(3) *Commercial Isotopes*, some of which the Atomic Energy Commission has released to the public. They are now being used by hospitals. The time is coming when these Isotopes will be used for all kinds of industrial work, to find flaws in machinery, in steel rails, textiles, etc. They may develop into a great industry.

(4) The *"Do-It-Yourself" Industries*, which have a promising future. With the shortening of hours, everyone is given more opportunity to work at home. If I wanted to open any kind of store, I would have a store which would handle materials to help people get along without carpenters, painters, electricians, etc.

(5) The *Mechanical Brain*—an invention with great possibilities. The time is coming when these new mechanisms will do much of our thinking and analyzing, and may become almost as common as the adding machine.

(6) *Watch Supersonics*. By this I mean very rapid mechanical vibrations which are faster than sound waves. Supersonics may completely eliminate present washing machines and other household utensils. They have the power of cleaning metal and even cutting metal. We first had the electrical age; we are now entering the electronic age; and will some day enter the supersonic age.

(7) *Vending Machines*. Some years ago we had vending machines in railroad stations and on street corners, but the industry got into a bad rut because so many of the machines were broken and the products and money were stolen. Now, with the introduction of self-service, the vending machine is protected within the store. It is again coming into its own.

(8) *Electric Power*. The time is coming when electric power, sufficient to run home appliances, may be broadcast like radio. Some even claim that we will buy our electricity in batteries, which will be brought to us once a month like bottled gas. This may give us electricity for the household cheaper than we could get it from the big central power stations.

(9) The *Conveyer Belt*, coming into use more for both people and goods. This will develop into a new industry, especially after the synthetic rubber plants are returned to private industry. A belt is now being devised to carry people from the Grand Central Station to Times Square, New York City.

(10) I am particularly interested in getting power, heat, light, and refrigeration from *Solar Radiation*. Statistics show that the amount of sunlight on an acre of land is equal to a thousand horsepower. A very complete report on the future of Solar Radiation appears in the September issue of "Fortune Magazine."

(11) *Automatic Factories* should permit decrease of prices and should allow workers more time for study and leisure. They are destined to increase rapidly in number. The printing industry is already on the verge of revolutionary changes whereby it can get along with a fraction of its present number of employees. Shoe factories, cotton mills, and others will enter the push-button stage where practically the entire operation will be done automatically. This will solve the union labor problem.

Conclusion

Economics is my specialty. All this talk about making prosperity *permanent* by legislation is sheer nonsense, although Congress can *temporarily* extend same. In the long run, prosperity is dependent upon us developing spiritually and having better knowledge and self-control, with a determination to render service. Too few of our people have these all-important qualities. Sometimes I think that young ministers and school teachers have the greatest opportunities for improving conditions.

Folger, Nolan and W. B. Hibbs Merge

(Special to THE FINANCIAL CHRONICLE)

WASHINGTON, D. C. — The merger of Folger, Nolan & Co., founded in 1931, and W. B. Hibbs & Co., founded in 1899, becomes effective Oct. 31, 1953. The combined business will be conducted on the first three floors of the Hibbs Building at 723 Fifteenth Street, N. W., as Folger, Nolan-W. B. Hibbs & Co. Inc.

Officers of the firm will be John Clifford Folger, member of the New York Stock Exchange, President; James Parker Nolan, executive Vice-President and Treasurer; Robert W. Fleming, Paul P. Rodler, member of the New York Stock Exchange, James C. Elgin, James A. Bruen, Vice-Presidents; and John J. Dunn, Vice-President and Assistant Secretary.

Jack G. Jackson With Shearson, Hammill Co.

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, Calif.—Jack G. Jackson has become associated with Shearson, Hammill & Co., 9608 Santa Monica Boulevard. Mr. Jackson was formerly President of Jackson-Anderson, Inc.

With Bateman, Eichler

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—William H. Bateman has joined the staff of Bateman, Eichler & Co., 453 South Spring Street, members of the Los Angeles Stock Exchange. He was previously with E. F. Hutton & Company.

Continued from first page

Our Tough Budgetary And Fiscal Problems

an effective control over policy and operations, and reorientation of the existing structure to a fundamental change in management philosophy.

The Budget—Fantastically Large And Complicated

So, first, let us take a look at some of the pertinent facts of this fantastically large and complicated business. As we do that, you will gain an idea of some of the problems that went with the transfer of management. And you can estimate the possibility of producing all the changes you would like to see in a few months.

(1) In 20 years the Federal government has grown in terms of 16 times greater expenditures, more than twice the percent of national income taken by taxes, and about a seven times greater total of civilian and military personnel.

At the same time, both direction and velocity were acquired from a policy of increasing centralization in and control by government and the encouragement of dependence on government, implemented by the legislative and administrative devices useful in accomplishing these ends.

(2) The facts suggest that we are in a costly trap of built-up dollar demands on the government for domestic purposes, many of them made mandatory by existing legislation, on which there have been imposed staggering expenditures for our national security. The source of payment is in taxes or in increased government debt.

(3) Past fiscal policy is clearly reflected in the deficit record. Beginning with the fiscal year 1934, there were 13 consecutive years of budgetary deficits, and in the 20 years through 1953, 17 years of deficits.

In the two fiscal years before 1954 there were actual deficits of $13.4 billion and for fiscal 1954 there was a proposed budget with an indicated deficit of $9.9 billion. This totals more than $23 billion of expenditures in excess of revenues for these three years.

Unofficial projections of the expenditure authorizations and programs in effect and proposed in the January budget, and of the estimated revenues from the existing tax laws under relatively favorable assumptions for the future, indicated that after the fiscal year 1954 there would be continuing deficits for a total of about $33 billion. If this program had been allowed to stand unchanged, there could have been a total of at least $56 billion of deficits beginning in the fiscal year 1952.

It should not be difficult to see the trend of the nation's financial affairs or the prospective increase in the total Federal debt.

The deficit policy was supported by artificially maintained low interest rates and a concentration of government debt in short-term obligations. As you well know, these policies led to a progressive depreciation in the purchasing power of the dollar.

(4) In addition to actual deficits, during the last four completed fiscal years (1950-1953) expenditures were authorized exceeding the actual revenues of the same years by over $90 billion.

A large part of the excess of authorizations to spend over revenues was for the crash build-up of our defense establishment after the beginning of the Korean war. But the effect of this was that, at the beginning of the 1954 fiscal year (last July), there were an estimated $81 billion of unfinanced appropriations existing as a claim against current and future government income or borrowing. The contracts and commitments made as a result of these appropriations became, in effect, COD obligations against the government and cannot be quickly or easily readjusted. To make matters worse, these authorized expenditures were programmed and largely committed to reach their peak in the fiscal years 1954 and 1955.

(5) While expenditures much greater than government revenues were being authorized, automatic tax reductions were in the law which would lower the government revenue by about $8 billion on a full year basis. One-quarter of this loss was scheduled to fall in the 1954 fiscal year and most of the remainder in the 1955 fiscal year. In the 1954 fiscal year the loss was partly offset by the six months' extension of the Excess Profits Tax.

Unfortunately, the highest planned level of expenditures under the authorizations of previous years and the revenue losses as a result of the tax reductions would have come to focus at the same time.

(6) Your government is a business that spends an average of about $300 million every day of a five-day work week, $6 billion a month. A Treasury general fund balance of about $6 billion is needed to meet one month's normal expenditures, but there can be a reduction of as much as $3 billion in the first half of some months.

(7) While the government has a fairly uniform level of expenditure, the terms of the corporate tax law are such that only about 40% of the government's total income is received in the first half of the fiscal year, which is the last half of the calendar year. The up-and-down action of revenue receipts leads to a substantial cash deficit in the first half of the fiscal year and a cash surplus in the last half. The result is a financing problem within the fiscal year, which is unrelated to the situation either at the beginning or at the end of the fiscal year.

For this reason, the government had to borrow $6 billion in July to replenish its cash and will have to borrow some additional amount before the end of the calendar year.

(8) The government debt was about $22.5 billion in 1933. In January it was about $267 billion and on Sept. 30, it was about $273 billion, with a statutory debt limit of $275 billion.

Financing this huge debt is complicated by the fact that nearly 60% of the publicly held debt is concentrated in obligations due within one year or on demand, and the Treasury has to refinance about $75 billion of marketable and non-marketable securities during the 1954 fiscal year.

The margin between the total debt and the statutory debt limit is a slim one for a business spending $6 billion a month and leaves little flexibility for handling so large a debt, such large refundings, and possible unforeseen demands.

Living Beyond the Treasury's Income

Reducing the astronomical dollar amounts I have mentioned to understandable terms, the government's situation, when the new Administration took office, can be likened to the status of a family that had consistently lived well beyond its means; had five years of real adversity (related to World War II); had only three times in 20 years provided itself with more income than it has spent; had acquired a debt over four times its yearly income; owed more than a year's income on COD's that will have to be paid for on delivery; normally had about one month's living expenses in the bank; had relatively little margin before reaching a fixed limit on its borrowing; was aware of an impending 10% reduction in its income; and had no immediate plans for changing its habits.

This is what we are expected to salvage in a few months. The summary only highlights the nature of some of the problems. Each has its own inherent series of obstacles and roadblocks to any change in status. However, action has been taken and is being taken to meet them. And with continued cooperation from the Congress and the citizens they can and will be met.

To begin with there were the organization problems of a new management, and obtaining new management in government is even more difficult than it is in business. At first there could be only the addition of a few new administrators at the very top level. These executives had to familiarize themselves with the problems and operations of segments of government the equivalent of, or even larger than, some of the largest of our corporations in terms of dollars spent and number of employees. In January the government had 60 departments and agencies, with innumerable divisions and subdivisions, and 2,550,000 civilian employees.

With this was the need to make the supporting changes among those exercising policy-making and delegated authority. There was little freedom to move on a selective quality basis, even at the highest staff levels. In reductions in force, existing restrictions frequently led to the loss of the best, rather than the least desirable members of the staff.

A new Congress was in session, the heads of the departments had to struggle with a special out-of-season examination and review of the budgets prepared by the previous Administration, and meet immediate and unending public and other time-consuming demands related to legislation, the budgets, and their organizations.

Few men would expect to go into a business comparable to their own and effect a successful reorganization within a few months. Yet, there seems to have been some unreasonable belief that a relatively small group of new administrators could take over this tremendous, complicated mechanism and staff of government and completely change its form, its policies, and direction almost immediately. Little thought was given to the long-established pattern of organization and movement, the limitations and restrictions established by the laws which govern a large part of every operation, and the complexities in the relationships of everything done by government and in government.

In accord with American tradition in government, great responsibility is coupled with little direct power of decision and action. Even after a determination, or even an agreeemnt, on something that is right or necessary, every step thereafter is one of extended and difficult consultation, negotiation, and compromise. This process will include the Congress if legislation, reorganization, or appropriations are involved. It will include other interested departments of the government. It may include foreign governments. It is sure to include the existing government staff. And, finally, it will include negotiation with the public which always has to be conditioned to any material change from a pattern of action to which it is accustomed.

Special Areas of Interest

Every issue is subjected to the impact of the extremely varied views and objectives arising from special areas of interest to responsibility and all the public and Congressional pressures which can be made to serve them.

Nowhere is this more apparent than in the consideration of the Federal budget or its offsetting tax revenues. Everyone is for government economy—in the abstract. But economy always should begin somewhere else and not affect the projects of a special interest or locality.

Of course, expenditures should be reduced, the budget should be balanced, and taxes should come down—but—proposals for government spending always "have merit," are "essential," "in the public interest," and "should be included in the budget." Denial or retrenchment always brings charges of "false economy" or something much worse.

Every agency and many other sources have an unlimited number of projects they are convinced will pay for themselves several times over, but the budget always increases. Obtaining, maintaining and expanding government support of projects and the power centers related to them is a major activity both inside and outside Washington.

The wealth and resources of our nation and its people are the envy of the rest of the world, but needs or desires still are unlimited and every existing and proposed project has some degree of merit. The difficult question is what projects, services or activities **should** be carried on by the Federal government and on what basis. And when you get to that point, you encounter the habits encouraged over the years and the pressures that have been built up behind the discovery of how much can be done to benefit a particular group or area as a result of persuading the government to finance it from taxes levied on all the people.

This may suggest to you one substantial area of difficulty connected with the Federal buget, but I assure you it is by no means the only one.

Factors About the Budget

There are several factors about the budget you should understand:

(1) The President recommends a budget to the Congress which is a dollar estimate of the amounts which officials believe are required to support the activities of the government. The details and total can be, and usually are, changed by the Congress, which carefully reviews these estimates and decides the maximum amounts allowed in each case.

(2) The amounts to be spent are authorized by appropriations which establish the level of spending, but do not automatically provide the funds. If the spending authorizations are not covered by tax revenues, they have to be covered by government borrowing.

(3) The budget is subject to all the risks of advance estimates of any kind magnifield by the range of government activities and every form of domestic or international change or crisis.

Adverse economic conditions automatically will reduce revenues but not comparable costs. Even favorable conditions can increase costs. Here is one example of a substanial factor of uncertainty.

On assumptions given in 1951, the original fiscal year 1953 budget estimated the expenditures of the Commodity Credit Corporation at $253 million. When the year closed, June 30, 1953, actual expenditures were $1 billion $888 million. That is what the terms of a law and a good crop year did to the budget. There are other similar open-end items as well as unforeseen domestic disasters and foreign crises to meet.

A 5% variation in an estimate may not be considered a large one but in government expenditures it is $3.5 billion. If revenue estimates should vary downward and expenditures upward, it is a difference of almost twice that amount in the wrong direction.

Last year the actual revenues were $3.5 billion less than the estimate. The estimate of total expenditures turned out to be accurate, but the expected deficit jumped from $5.9 to $9.4 billion.

(4) Legislation which places a service or work-load on the government adds to the annual operating costs. Legislation which establishes programs calling for government support to activities carried on outside the government results in annual costs which are relatively uncontrollable by administrative action. Any reduction in these expenditures will require changes in the legislation not easily obtained. Either can be an expanding program with automatically and constantly increasing costs.

Law has been piled upon law and program on program, requiring service and expenditure. There are constant additions without offsetting substitutions or subtractions.

I am reminded of a quotation from a British author, that, "What we need is a Parliament of men and women dedicated to the gradual and careful unmaking of laws." And particularly so, when I see attempts to measure the accomplishments of the Congress in terms of the number of laws enacted.

The Federal budget is an appalling document, published in two volumes of nearly 1,700 closely printed pages. Because of its length and complex legal and accounting language it is about as enticing to read as a dictionary or a metropolitan telephone directory. Preparation begins in May or June each year to cover the year of business which begins July of the following year. As you can imagine, to assemble, analyze, and prepare the information is a tremendous and difficult technical task.

One way to reduce your concern about the complexities of your own business is to look through these books—I doubt if you will read them.

To understand the budget at all, it has to be greatly simplified, so I am not going to feature the incomprehensible billions of dollars or the thousands of details. You will more easily grasp the nature of the problems related to reducing the budget if it is analyzed in terms of the type of action required.

You will find expenditures fall into three principal categories. Of the total estimated expenditures (and using rounded figures), 70% is for the three major programs of national security, the military functions of the Department of Defense, the Mutual Security Program, and the Atomic Energy Commission.

All other costs are 30%—20% is for major programs that are relatively uncontrollable under existing legislation, and 10% covers all the other activities of the government.

Relation of National Security Costs to the Budget

In this breakdown you will find a definition of the problem. It becomes easy to see the relationship of national security costs to the total budget. Now a brief explanation of each category, but in a different order of presentation.

Little can be done by administrative action in the area of mandatory programs and those requiring payments to others under existing legislation. Here only changes in the laws themselves will produce material savings.

These programs include such large costs as interest on the public debt; veterans' compensation, pension, and benefit programs; grants to the states for public assistance; grants to the states for unemployment compensation and employment service administration; grants for Federal aid for highways; agricultural price supports; and similar items, for a total of nearly $15 billion.

So long as these legal obligations exist, there is a corresponding need to administer them. The cost of doing so will vary with the nature of the program. If there is a great deal of supervision and detail to be handled by the government, there will be a large cost.

The 10% of the total carries the cost of the workload on mandatory programs and all the other functions and services of government. Included are the costs of operating all the regulatory agencies; government construction; the Treasury administration of the public debt and collection of taxes; the Department of Justice, including the FBI; the Post Office deficit; and many other essential and longstanding services that cannot be eliminated or drastically reduced if their function is to be continued and performed with any degree of effectiveness. This cost is about $7.5 billion.

A few examples will illustrate both the mandatory and workload costs, and also show why a simple over-all percentage reduction cannot be applied across the budget. About 70% of the cost of the Department of Health, Education, and Welfare is in grants to states for public assistance. Nearly 80% of Veterans Administration costs are in payments for compensation, pensions, and benefits. Nearly 90% of the cost of the Treasury Department is interest paid on the public debt. About 60% of the cost of the Department of Agriculture is for agricultural price supports. And nearly half the expenditures of the Commerce Department are for Federal highway aid. In cases like these, even a fairly substantial reduction in the controllable costs of the agency will represent a relatively small percent of its total expenditures.

The three major national security programs represent 70% of total expenditures, and total $50 billion. The military functions of the Department of Defense are $41.7 billion, Mutual Security $6 billion, and the Atomic Energy Commission $2.3 billion. While these are the major programs, elsewhere in the budget there are some other expenditures related to national security, such as the Civilian Defense Administration and the stockpiling of strategic materials.

This category is not only the largest proportion and the greatest dollar amount of expenditures but represents the principal source of the increase in the total budget since the outbreak of hostilities in Korea.

The significant fact is this. While these expenditures were increasing nearly $34 billion over the $16 billion level of the fiscal year 1950, the total expenditures of the budget increased only $32 billion. The relationship of these two figures is obvious. They make clear, that if total expenditures are to be substantially reduced most of the reduction will have to come from the area in which there was the greatest increase. Deficits of a magnitude of $10 billion cannot be met by completely eliminating a smaller amount representing all the other activities of the government or from mandatory programs and payments under existing legislation. Each can contribute some amount but cannot supply the final answer to the budget balancing problem.

The fact is that any way you analyze the budget, whether by components or by the principal sources of its growth, the final status in dollars primarily will depend on the needs and the costs of our national security programs.

This summary of the budget will reinforce what I said earlier about the outstanding backlog of commitments against current and future income, the level of expenditures developed according to earlier plans which reach their peak in fiscal 1954 and 1955, and the automatic loss of revenue under existing laws in those same years. Their combination makes the fiscal years 1954 and 1955 critical from an expenditure and revenue standpoint. And of the two, 1955 is the more critical because there the greatest part of the revenue loss is taken, assuming no other unfavorable circumstances affect revenues or expenditures.

The fiscal year 1955 is still ahead of us. It begins in July, 1954. If the revenue conditions remain favorable, the tax reductions now in the law will cause an estimated loss of revenue in that year equal to or exceeding the amount of savings we expect to make in this year's expenditures. This means that the budget balancing problem in the 1955 fiscal year is at least the same in magnitude as the one we faced this year.

There will be the same vigorous effort to meet it, but the farther you go on the road to government economy, the more difficult it becomes. The first cuts always are the easiest. As the fiscal 1954 expenditure reductions become known and begin to take effect the complaints and criticisms increase. The pressures already are building up against further cuts in fiscal 1955.

The need and the large cost of an effective national security program illustrate the fact that the drive for reduced expenditures cannot be based on mere dollar substractions to produce a desired result. If that were the case anyone who could add and subtract could balance the budget. There are other important considerations. There are the possible disturbing effects on the economy of action that is too abrupt. And we cannot ignore the large areas of human welfare that are so interwoven into government expenditures as to be substantially dependent upon them.

Moving to control, to stop, and to change a situation like this depends on establishing a management and an organization which attacks waste, inefficiency, and duplication, and spearheads the elimination of activities that are unessential or can be as well or better carried out by other means.

Substantial savings can be and are being made in operating economies but management economies alone will not be sufficient. The savings which produce the largest dollar amount of reductions will come from a reconsideration of the existing plans and programs which underlie the expenditures in the budget. This is being done for the first time. All the possibilities are being intensively surveyed and continuously acted upon in every department of the government. But to unravel and modify or eliminate some of the more costly programs is not a simple task.

Nowhere is this more apparent or more difficult than in the security categories of expenditures which represent so much of the total budget. This has every kind of management problem in proportion to its size, the most critical kind of policy problems relating to our national security, and a tremendous backlog of domestic and international commitments.

The structure and cost of an adequate defense posture for the United States, in view of prevailing world conditions and the type of weapons available to possible aggressors in an atomic age, is the most serious policy problem of the government, of the Congress and of the people. A reappraisal of plans and policies underlying an appropriate defense structure which we can afford to carry over a long pull, if that should prove necessary, is having the most intense examination by the Administration and our military leaders. On the answer and its public acceptance will depend the future of the budget and of taxation.

It is not my function to discuss military policy questions, serious as they are to all of us, except to remind you that we have both a military and an economic threat to meet. We have to ensure the safety of the nation on the military front and not, at the same time, weaken or destroy its economic stability and vitality. We know a sound domestic economy is the foundation of an effective military defense. We know that the fate of much of the rest of the world depends on maintaining the fundamental strength and soundness of the United States.

The question is what kind of a defense structure can be reasonably effective under present circumstances, is economically bearable, and can be maintained, if necessary, over a relatively long period of time. We propose to defend a way of life, as well as to protect lives and property. To preserve the first, and our national solvency, while providing the second will require the understanding and cooperation of everyone. Particularly as we seem to be dealing with a belief that the government should finance any kind of a project, can guarantee everyone personal economic security, and provide absolute military safety of life and property, at only a modest dollar cost.

Two things are certain. First, so long as it is necessary to devote most of the government's expenditures to our national security, we are in a war economy, no matter what you may choose to call it. Second, a continuation of irresponsible and unsound fiscal policies will play into the hands of those who hope to undermine and destroy the United States without engaging it in actual war.

Our military power definitely is being and will be improved and strengthened. But in the process every possible step will be taken to produce greater strength from the resources available, by revising and improving plans, better management, more efficient use of personnel, and better balanced procurement of military equipment and supplies. Strength demands more than dollars in military budgets and fat encourages neither efficiency nor economy.

You can depend on Secretaries Wilson and Kyes, the Joint Chiefs of Staff, and their associates to do what needs to be done, as rapidly as possible, and they deserve your unlimited support.

Whatever the problems that confront your government, definite and aggressive action is being taken to meet them. The course has been turned and progress is being made in new directions.

To support this statement I shall not attempt to recite or repeat everything that has been done and how it was done. You already know about many of the actions taken. I shall close with a few general observations about some important fundamental changes.

There is a change in tone in government arising from new standards of personal integrity, security, and ability.

The decision about price, wage, rent, and other government controls, before this time considered necessary to obscure the symptoms of inflation, was quickly made. The dead hand of goverenment was promptly lifted.

There is a reversal from progressively increasing the concentration of power in Washington toward the encouragement of decentralization and local responsibility.

Fiscal action has been directed toward the assurance of a sound dollar and renewed incentives to earn and save. At the same time there is a complete realization that the stabilization problem has its two-way aspects and there can be a need for plans and action for both types of movement.

There is a new respect and consideration for States' rights and a special commission will consider the problems of intergovernmental functions and available fiscal resources.

Former President Hoover heads a commission, with broad powers, to examine the organization of the government in terms of its appropriate functions.

The Administration is unified behind the President in a policy of economy, efficiency, and simplification. At his direction all departments and agencies are reexamining and revising their organizations, plans, and operations.

All 10 organization plans advanced by the Administration have been approved by the Congress and are in effect. As time goes on they will be increasingly productive.

In a relatively few months' time notable results have been produced. Reductions in personnel are being made and will continue. There has been a $13 billion reduction in the request for new appropriations—a saving of about $300 in current and future government expenditures for every household. There is an estimated $6.5 billion reduction in expenditures for this fiscal year in a budget we were told could not be cut. This also is a $2.5 billion reduction from 1953 expenditures.

For the first time since 1948, new authorizations to spend are less than estimated budget expenditures. For the first time since hostilities began in Korea new authorizations to spend are less than estimated budget revenues. This is a complete reversal of recent years, is the first step toward whittling down the backlog of commitments and lowering current and future expenditures—and is the essential turning point toward a balanced budget.

For what has been done I want you to give full measure of credit to our leaders in the Congress and the Chairmen and Committee members and their staffs who worked so long, so hard, and so effectively to bring about these results. The support, the cooperation, and the action reflected, I am convinced, interpretation of a general public demand for the change of direction.

What has been done is just the beginning, and will continue. We are proceeding on the principle that when costs are not an issue, expenses multiply. And when costs are made an issue, savings will multiply. Costs have been made an issue for the first time in many years, and will remain an issue.

As this policy becomes fully recognized and established at all the levels of government, we find coming to our assistance the many thousands of able and sincere government employees, in the civilian staff and in the armed services, who believe what we are doing is necessary and are eager and willing to assist in its accomplishment.

But—to quote the President of the United States, "Government cannot do this job—any more than any other job—utterly alone. You and your fellow citizens who want your government to spend less must yourselves practice self-restraint in the demands you make upon government. You, as citizens, cannot help the common cause by merely favoring economy for every group except the one to which you belong."

Exchange Firms Get Slate for Officers

Horace W. Frost, resident partner of Tucker, Anthony & Co. in Boston, has been nominated 1954 President of the Association of Stock Exchange Firms. Eugene M. Geddes, Clark, Dodge & Co., New York, and John J. Sullivan, senior partner of Bosworth, Sullivan & Co., Denver, have been nominated as Vice-Presidents, and James J. Lee, W. E. Hutton & Co., New York, as Treasurer, it was announced by the Board of Governors of the Association.

Horace W. Frost

Elections will take place at the annual meeting of members in New York on Nov. 18.

The Association also announces that the following have been nominated for election for varying terms to the Board of 35 partners of member firms:

Henry M. Cook, Newhard, Cook & Co., St. Louis.

Roger Cortesi, Auchincloss, Parker & Redpath, New York City.

Van R. Halsey, Carlisle & Jacquelin, New York City.

John H. Kitchen, George D. B. Bonbright & Co., Rochester, N. Y.

Robert J. Lewis, Estabrook & Co., New York City.

Charles McKenna Lynch, Jr., Moore, Leonard & Lynch, Pittsburgh.

Walter Maynard, Shearson, Hammill & Co., New York City.

Herbert O. Peet, H. O. Peet & Company, Kansas City.

Wickliffe Shreve, Hayden, Stone & Co., New York City.

James H. Scott, Scott & Stringfellow, Richmond.

Edward F. Thompson, Jr., Lamson Bros. & Co., Chicago.

George H. Walker, Jr., G. H. Walker & Co., New York City.

Sewell S. Watts, Jr., Baker, Watts & Co., Baltimore.

Lloyd C. Young, Lester, Ryons & Co., Los Angeles.

The Nominating Committee which presented this slate was headed by Ranald H. Macdonald, Dominick & Dominick. The other members were George E. Barnes, Wayne Hummer & Co.; Albert H. Gordon, Kidder, Peabody & Co.; William B. Haffner, Wilcox & Co.; Edgar Scott, Montgomery, Scott & Co.

The following are nominated to constitute the Nominating Committee for 1954:

Harold L. Bache, Bache & Co., New York City.

Maynard C. Ivison, Abbott, Proctor & Paine, New York City.

Walter W. Stokes, Jr., Stokes, Hoyt & Co., New York City.

Max J. Stringer, Watling, Lerchen & Co., Detroit.

C. Newbold Taylor, W. H. Newbold's Son & Co.. Philadelphia.

Kohlmeyer Admits

Kohlmeyer & Co., members of the New Work Stock Exchange, on Oct. 29 will admit Charles B. Vose to partnership. Mr. Vose will make his headquarters in the firm's New York office at 60 Beaver Street.

Continued from first page

As We See It

thinker who should be enshrined as the patron saint of the American system of free enterprise and individual initiative — Adam Smith. At the very beginning of his *magnum opus* published in the year of our Revolution he gets to the heart of economics in these words:

"According . . . as this produce [of the economic activities of the people], or what is purchased with it [from other countries], bears a greater or smaller proportion to the number of those who are to consume it, the nation will be better or worse supplied with all the necessaries and conveniences for which it has occasion.

"But this proportion must in every nation be regulated by two different circumstances; first, by the skill, dexterity, and the judgment with which its labor is generally applied [we are certain that the master would have added the word "diligence" had the conditions in the world at his time suggested the need of it]; and, secondly, by the proportion between the number of those who are employed in useful labor, and that of those who are not so employed. Whatever be soil, climate, or extent of territory of any particular nation, the abundance or scantiness of its annual supply must, in that particular situation, depend upon those two circumstances.

"The abundance or scantiness of this supply, too, seems to depend more upon the former of those two circumstances than upon the latter. Among the savage nations of hunters and fishers, every individual who is able to work, is more or less employed in useful labor, and endeavors to provide, as well as he can, the necessaries and conveniences of life, for himself, or such of his family or tribe as are either too old, or too young, or too infirm to go a-hunting and fishing. Such nations, however, are so miserably poor that, from mere want, they are frequently reduced, or, at least, think themselves reduced, to the necessity sometimes of directly destroying, and sometimes of abandoning their infants, their old people, and those afflicted with lingering diseases, to perish with hunger, or to be devoured by wild beasts. Among civilized and thriving nations, on the contrary, though a great number of people do not labor at all, many of whom consume the produce of ten times, frequently of a hundred times, more labor than the greater part of those who work; yet the produce of the whole labor of the society is so great that all are often abundantly supplied, and a workman, even of the lowest and poorest order, if he is frugal and industrious, may enjoy a greater share of the necessaries and conveniences of life than it is possible for any savage to acquire."

Full Employment

And yet there are many who blithely suppose that "full employment" is at once the goal of economic endeavor and the seal of its success!

But let us return to further observations of one of the greatest thinkers of all ages.

"Whatever be the actual state of the skill, dexterity, and judgment with which labor is applied in any nation," he tells us, "the abundance or scantiness of its annual supply must depend, during the continuance of that state, upon the proportion between the number of those who are annually employed in useful labor, and that of those who are not so employed. The number of useful and productive laborers . . . is everywhere in proportion to the quantity of capital stock which is employed in setting them to work, and to the particular way in which it is so employed."

A New Look at Problems

Now with these basic principles in mind let us turn to some of our current problems and controversies. First of all, we may congratulate ourselves upon the fact, for fact it is, that in part at least the so-called dollar problem, and the persistence of the troubles underlying it, are to be traced to our mastery of the art of applying the energies of human beings to the tasks of producing the good things of life. So great is our success in this endeavor that we as a nation are the chief if not the only source of many of the things other peoples need or want. How much longer we shall be able to continue doing so is another question but to date we have (with the help at times, of course, of devastating wars abroad and the like) succeeded in doing so.

But how, we wonder, would it be possible to square our agricultural policies of the past two or three decades with the basic principle of the creation and distribution of wealth laid down in the sentences quoted above? Millions, perhaps billions, of man-hours of work producing eggs, potatoes, and many other things which no one wants and which ultimately are destroyed as useless or worse! Millions of men detained on the farms while the rest of the community searches in vain for the manpower to produce the goods demanded by the people! Is this good "judgment" in the application of human energy?

What of the restrictions and other interferences with efficient production we as a people have encouraged monopolistic labor unions to impose upon us? What of the manpower wasted in needless government operations? What of the labor devoted to the production of tariff-protected goods which could be more cheaply purchased abroad? How distressingly our folly is thus made to appear!

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The Look Ahead!

plants. This obviously would affect our profits.

Sure There Will Be No Deep Depression

I have already said that business will fluctuate but I am sure there will be no deep recessions, certainly not a depression of the 1929-34 pattern. We have learned a lot in the past two decades. We have not made the economic mistakes we made in the 1920s. Above all, we are living in a different kind of world—one that must have steel in ever-increasing tonnages.

First of all, our lives are centered around the automobile. It has taken over much of our transportation and changed our homes and our habits. It, itself, must have steel, millions of tons of it, and so also must the roads and bridges over which it travels. Millions of more tons are needed to supply it with gas and oil, steel for the oil wells, steel for the pipe lines, steel for the filling stations and garages.

Secondly, the American standard of living is built on steel. Radios, TV sets, dish washers, driers, refrigerators, air conditioners, vacuum cleaners, telephones, washing machines and the variety of other electric appliances are made of steel. Americans have no intention of lowering their standard of living, and this means that there will be a large replacement market for steel, together with the possibility of new and, today, unforeseen products. All of this will be strengthened by the requirements of the formation of new families as our population increases.

Tremendous Uncertainties

As we look abroad, however, the picture changes. We are living in a world of tremendous uncertainties. We have just signed an armistice in Korea, but we are not sure of peace even in that troubled country. We are trying to help France down the Communists in Indo-China. There are troubles in the Philippines, in Burma, in Indonesia, in Kashmir, in Egypt, in Italy. We have just signed a treaty for bases in Spain. Our friends have won victories in Iran and Western Germany. There is an uneasy stirring among the peoples of Asia, of Africa and of South America. Too many people are hungry, and thus prey to the lies of the Communists.

But dominating and confounding the world crisis is Russia. The confirmation of the fact that she now has the hydrogen bomb is the most disturbing news of our time. While she has a new regime that seems at the moment taken up with the domestic problem of consolidating its hold in that police state, she is ever ready to pounce on us, if at any time she has any hope of success. The potentialities of the hydrogen bomb should make us all pause and think. Its successful use by Russia can be disastrous for us—it can be fatal.

From all this, one thing is clear: the United States must keep its defenses strong. It cannot relax for a day. To keep strong this nation must spend billions of dollars in instruments of war—and go on spending billions for years.

So the uneconomic conditions of the cold war have become normal. We must go on living and working under the threat of attack—a condition that is not true peace and not yet true war. There can be no change for us until there is a change in Russia, and there is no sign of that yet. This all adds up to a base military and economic aid budget ranging from $45 to $50 billion.

Role of Steel Companies

Republic Steel, and the other American steel companies, have a major role to play in this world drama. Our war potential, and Russia's also, is based on steel. Russia has been pressing for 30 years to increase its ingot output so it might increase its war potential. While its government-owned mills have made great progress, its national output is only about a third of that of the United States.

Thus, short of a devastating sneak attack with atomic weapons, we can lick Russia, and she knows it. We should continue that lead. Republic Steel can be counted on to contribute its share. All we ask is to be allowed to operate efficiently and profitably.

Hitherto our greatest danger in the United States has been from within. We know the leaders of Communist Russia have been counting on a depression to weaken the American economy. They know that this would reduce our war potential. They have told us so again and again. It is part of their plan of conquest. When we want to commit national suicide, we shall oblige them with the depression they want. Until then we cannot afford to have a depression.

President Eisenhower is alert to this danger. He has given us his word that his Administration will not permit the United States to have the kind of depression that will close our factories, throw millions of our workers out of jobs, and weaken our national economy and our national defense. He has many economic weapons at hand, and he will use them.

A Government Friendly to Business

For the first time in 20 years we have a government in Washington that is not hostile to business. President Eisenhower, Secretary of the Treasury Humphrey, Secretary of Defense Wilson and Secretary of Commerce Weeks understand that wealth comes from production and from that alone. They know that production can only come from three cooperating factors: national resources, working men and women, and the tools that capital makes available to them. They know that you cannot tax a vacuum and spend yourself into prosperity. They also know that despite all sorts of economic trickery inflation can be as weakening as deflation. They know that to get more jobs you must have more production.

These are the facts that motivate their efforts to balance the budget, cut taxes, and maintain the purchasing power of your dollar. I have confidence in President Eisenhower, Secretary Humphrey and their associates. I know they are traveling the right road, and I am certain that they will win. Inevitably the readjustments that they must make, the changes made necessary by 20 years of New Deal and Fair Deal administrations, will require adjustments in the American economy, but I feel certain also that the average American, certainly the average American businessman, will make them gladly in the interest of the ultimate good to himself and to business.

This is the kind of Administration with which business can and should cooperate. We at Republic Steel are happy to do so. We gave evidence of that recently by the campaign to get our workers to buy Savings Bonds. Nearly 97% signed to buy Savings Bonds. We believe in the soundness of our country's management and in the security which our people get by investing in our country's bonds. That is a record of which we are also proud.

Let me say right here that you can weaken your economy by giving away the proceeds of such bond purchases.

What did the United States get in return for the million Americans sacrificed and the $350 billion spent, or given away, in recent foreign ventures?

I am asking that question. I shall leave the answer to our so-called Liberals.

Reduced Tax Will Be Business Incentive

Finally, the coming reduction in the tax on corporate income will have an important influence on business; but even more important is the change in the tax philosophy.

The Excess Profit Tax is due to end on Jan. 1, 1954, and few will miss it. It has been a bad tax. It has encouraged waste in business. It has favored the long-established, profitable business as against the younger and growing business. It has been unfair to Republic Steel. We did not have a chance to build a strong profit base before excess profit taxes were imposed. We will gain more by its death than almost any other steel company.

Whether the regular corporate income tax will be reduced on April 1, 1954, from the present 52% to 47%, as scheduled, remains in doubt. The Eisenhower Administration has had great success in slashing governmental costs. Administration leaders have made savings already of about $7 billion, and that is not small change, but they have not been able to balance the budget. They may need the full amount of this tax to do so.

If the tax is continued unchanged, American business will understand that it is because it cannot be cut. We will understand that taxes are not being used to redistribute wealth. For we realize that the trend towards socialism, toward the welfare state, has been stalled, if not reversed, and that taxes are being imposed to pay governmental costs, and for that purpose only. And this is all to the good.

I feel, as I am sure you do, that I can spend my own income better than the Government can do it for me. Moreover, it is a hell of a lot more fun.

Some Recession in Evidence

At present there are evidences of some recession from the high business plateau on which business has been living. Steel production is below capacity. The same is true in some other industries. We are probably entering a buyer's market. But is that something to worry the American businessman? I think not. Certainly it does not worry the officials who direct Republic Steel. We welcome the free market and plenty of competition.

The free market is the normal condition for American business. We would not have it otherwise. It is the kind of challenge we like. It means we must do our best. It means steady improvement in production, in selling, in products.

We accepted Federal controls and price-fixing under war conditions, but we did not like them. We do not want them in times of peace. We want to run our own company.

Under the free enterprise system the United States has grown in a century and a half from 13 poor, struggling colonies on the edge of the Continental Wilderness into the richest, most productive and most powerful of nations. Under it men have been free and happy. It has provided more of the world's goods for more people than any other system ever known to man. Just take a glance at the Europe of today. Western Germany, Belgium and Switzerland, the nations with free enterprise, are prospering. France, Britain and Italy, with their variations of the welfare state, are in difficulties, and cannot survive without American handouts. Present-day Europe proves it all over again.

Yes, we at Republic Steel welcome the free market and competition. We believe that production means wealth. We are not for an economy of scarcity in any form. We don't want war, hot or cold. We don't want Federal controls. We don't want bureaucrats to do our thinking and planning for us. We want the American system, the old-fashioned kind, and nothing else. Given that we know we will prosper, for we know we shall be living and working in a prosperous America. Republic Steel moves into the future full of confidence.

New York Stock Exchange Weekly Firm Changes

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

William Fisher, Jr. retired from partnership in William Fisher & Co., Oct. 20.

Newell E. Thomas will withdraw from partnership in Gammack & Co., Oct. 31.

Gordon R. Kay will retire from A. M. Kidder & Co., Oct. 31.

Richard A. Balsam, general partner in J. C. Newsome & Co., became a limited partner, Oct. 9.

Earnest Stiassni, retired from limited partnership in Bernard, Winkler & Co., Sept. 5.

Reynold Bunker Opens

WHITE PLAINS, N. Y.—Reynold F. Bunker & Co., Inc. has been formed to engage in a securities business from offices at 11 Saxonwood Park Drive.

S. D. Slater Co. Formed

Sidney D. Slater and Eve M. Slater have formed the partnership of S. D. Slater & Company with offices at 550 Fifth Avenue, New York City, to engage in a securities business.

With McCormick in Fla.

(Special to The Financial Chronicle)

FT. MEYER, Fla. — Leslie E. Bookout is representing McCormick & Co. of Chicago. Mr. Bookout has been with the firm in Chicago for a number of years.

Atomic Development Secs.

WASHINGTON, D. C.—Merle Thorpe, Jr. and Newton I. Steers, Jr. have formed the Atomic Development Securities Co. with offices at 1033 30th Street, N. W.

Continued from page 5

The State of Trade and Industry

ing at a slower pace while the Big Three auto models continue to roll out at a high rate.

In the past week the independents accounted for only about 3.8% of the total of 122,198 cars built, according to this agency. In the preceding week they represented about 4.7% of the 116,476 cars made and in the like year-ago week they stood for about 12% of the 101,317 turned out.

Car output last week was about 19% below the high week this year of April 25, when 151,126 cars were produced but the independent makers in that period turned out 12.5% of the total, this trade authority notes.

This week total output will fall slightly as such big producers as Ford and Mercury, along with possibly a few others, cut their schedules a bit. The independents won't offset this loss and may add to it, continues "Ward's."

In the year to date, 5,126,157 cars have been assembled, compared with 3,300,336 in the like year-ago period. There have been 999,146 trucks made in the same period this year, against 923,677 in the corresponding 1952 period, "Ward's" reports.

According to Government reports construction was begun in September on 92,000 dwelling units. This was a decline of 2,000 from August, and 8,800 less than in September, 1952. A decrease of 4,000 in private housing starts, to 89,000, was responsible for the overall drop from August to September. Public housing starts totaled 3,000 in September, against 1,000 the previous month. In the first nine months of 1953, building was undertaken on 863,000 housing units, slightly below the level of a year earlier.

Steel Operations Scheduled to Be Lower This Week

Business is "looking up" in the steel industry, says "Steel," the weekly magazine of metalworking, the current week.

The inventory reduction that started among steel consumers during the summer appears to be about over. They have lowered their inventories about as far as is practical in light of the high over-all business conditions. Now they must quit living off inventories and come into the market for sufficient steel to supply their present high needs. This means that a good many steel users probably will be ordering more steel than they have been recently, it notes.

Among the reasons the decline in demand for steel has not gone any further are continued heavy expenditures for national defense, a continued good level of consumer expenditures and a continued growth in the country's population, states this trade journal.

The slight decline that hit steel demand this last summer stemmed to a great degree from the fact that the growing steel capacity and supply caught up with demand about the time the Korean war ended. Ending of the war dispelled fears of shortages and brought stretchouts of defense programs, it points out.

While demand for some forms of finished steel is less than for others, the over-all demand was sufficient to keep steel ingot production at a steady pace of 95% of capacity during the week ended Oct. 17, declares "Steel." This rate is equivalent to production of 2,140,000 net tons of ingots and steel for castings.

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 94.8% of capacity for the week beginning Oct. 19, 1953, equivalent to 2,137,000 tons of ingots and steel for castings as against 96.3% (revised), or 2,172,000 tons a week ago. For the like week a month ago the rate was 95.1% and production 2,144,000 tons. A year ago the weekly production was placed at 2,221,000 tons and the operating rate was 106.9% 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 Decline in Latest Week

Loadings of revenue freight for the week ended Oct. 10, 1953, decreased 8,484 cars, or 1.0% below the preceding week, according to the Association of American Railroads.

Loadings totaled 804,070 cars, a decrease of 38,727 cars, or 4.6% below the corresponding 1952 week, and a decrease of 64,613 cars, or 7.4% below the corresponding 1951 week.

Electric Output Extends Decline of Previous Week

The amount of electric energy distributed by the electric light and power industry for the week ended Saturday, Oct. 17, 1953, was estimated at 8,264,800,000 kwh., according to the Edison Electric Institute.

The current figure represents a decrease of 42,509,000 kwh. below that of the preceding week, but an increase of 583,468,000 kwh., or 7.6%, over the comparable 1952 week and 1,115,342,000 kwh. over the like week in 1951.

U. S. Auto Output Continues to Rise in Latest Week

Automobile output for the latest week was about 19% below the high week this year of April 25, when 151,126 cars were produced, "Ward's Automotive Reports" stated.

The industry, however, turned out 122,198 cars last week, compared with 116,476 in the previous week. A year ago the weekly production was 101,317.

United States truck production last week totaled 23,211 compared with 23,926 the previous week. A year ago truck output was 29,555 units.

Canadian companies made 5,539 cars last week, compared with 6,434 in the previous week and 4,960 in the like 1952 week. Truck production amounted to 1,524 units last week, against 1,913 the week before and 2,256 in the year earlier period.

Business Failures Continue Downward Trend

Commercial and industrial failures declined to 169 in the week ended Oct. 15, from 186 in the preceding week, Dun & Bradstreet, Inc., reports. Despite this decrease, casualties were considerably above the comparable 1952 total of 139 and slightly above the 157 in 1951. Failures remained 39% below the prewar level of 277 in the similar week of 1939.

Casualties involving liabilities of $5,000 or more fell to 138 from 160 last week but continued above the 122 of this size a year ago. An increase, on the other hand, raised small casualties, those with liabilities under $5,000, to 31 from 26 a week ago and 17 in the comparable week of 1952. A total of 23 concerns failed with liabilities of $100,000 or more, as against 19 in the previous week.

Wholesale Food Price Index Unchanged From Previous Week

Irregular movements in food prices last week left the Dun & Bradstreet wholesale food price index unchanged at its previous level—$6.57. While this was the lowest since June 30, when the index stood at $6.54, it represented a rise of 3.0% over the comparable 1952 figure of $6.38.

The index represents the sum total of the price per pound of 31 foods in general use and its chief function is to show the general trend of food prices at the wholesale level.

Wholesale Commodity Price Index Holds Close To Level of Week Ago

The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., moved in a narrow range around the lowest level of the year the past week. The index dropped to 270.04 on Oct. 8, a new low since early July, 1950. It closed at 270.71 on Oct. 13, comparing with 270.85 a week previous, and 287.01 a year ago.

Grain markets were unsettled last week. Following early weakness, most grains recovered to show small net gains for the period.

Despite the prospect of another huge crop, corn prices edged upward from their recent lows as country offerings remained small in volume.

The national average price support level for 1953-crop corn was placed at $1.60 per bushel, the same as for the 1952 crop. Steadiness in wheat reflected the serious drought conditions prevailing over many sections of the southwestern Winter wheat belt. Heavy rains reported last week were confined to small areas and precipitation in general was said to be extremely light. Sales of all grain and soybean futures on the Chicago Board of Trade last week declined to a daily average of about 40,300,000 bushels, from 44,900,000 the preceding week, and compared with 35,600,000 in the same week a year ago.

The coffee futures market declined sharply in heavy trading, largely influenced by rumors of pending changes in Brazil's export policy.

Domestic raw sugar was steady in fairly active trading. Lard prices moved irregularly higher, aided by dwindling stocks and sharp advances in soybean oil. Live hog values continued to weaken as heavier receipts encountered buyer resistance.

Spot cotton prices were irregular and the market developed a somewhat weaker tone following the substantial increase reported in the latest official production estimate. The Department of Agriculture estimated the 1953 crop as of Oct. 1, at 15,596,000 bales, or 437,000 bales higher than the September forecast, and comparing with the 1952 actual production of 15,136,000 bales. The indicated yield per acre was placed at 315.4 pounds, the highest on record. Harvesting continued to make good progress and the movement of cotton into trade channels increased. Mill buying was confined largely to small lots for nearby needs. Inquiries from foreign sources were more numerous. Entries of cotton into the CCC loan continued in good volume and totaled 172,000 bales during the week ended Oct. 2, bringing entries for the season through that date to 563,000 bales.

Trade Volume Lifted by Special Promotions And Favorable Weather

Shoppers increased their spending slightly in most parts of the nation in the period ended on Wednesday of last week as seasonal weather stirred the interest in many apparel items. Special promotions on Columbus Day generally attracted spirited response.

Most merchants continued to surpass the sales figures of a year ago, with the most marked rises in apparel.

The total dollar volume of retail trade in the week was estimated by Dun & Bradstreet, Inc., to be from 1 to 5% higher than that of a year ago. Regional estimates varied from the comparable 1952 level by the following precentages: New England and East 0 to +4; Midwest and Northeast +1 to +5; South and Pacific Coast +2 to +6 and Southwest +3 to +7.

Aggressive promotions wree instrumental in stirring the demand for apparel the past week. Shoppers continued to spend more for apparel than they did a year earlier. Gaining steadily in popularity were women's coats,, men's suits and children's clothing. Casual clothing and campus styles were also more frequently purchased than at this time last year.

Many retailers expected to exceed the sales figures of the 1952 gift shopping season.

As many buyers prepared for the holiday season, the total dollar volume of wholesale orders expanded slightly in the period ended on Wednesday last week and continued to be slightly larger than that of a year ago. Most retailers anticipated a new record holiday shopping season. Deliveries were less prompt than in recent weeks.

Department store sales in a country-wide basis, as taken from the Federal Reserve Board's index, for the week ended Oct. 10, 1953, decreased 5% from the level of the preceding week. In the previous week, Oct. 3, 1953, a decrease of 3% was reported from that of the similar week of 1952. For the four weeks ended Oct. 10, 1953, no change was reported. For the period Jan. 1 to Oct. 10, 1953, department store sales registered an increase of 3% above 1952.

Retail trade in New York last week responded to important promotions by several leading stores and favorable weather by recording gains of more than 5% above the similar period in 1952.

According to the Federal Reserve Board's index department store sales in New York City for the weekly period ended Oct. 10, 1953, declined 2% from the like period of last year. In the preceding week Oct. 3, 1953, a decrease of 3% (revised) was reported from that of the similar week of 1952, while for the four weeks ended Oct. 10, 1953, an increase of 2% was reported. For the period Jan. 1 to Oct. 10, 1953, no change was registered from that of the 1952 period.

Commonwealth Sales Gain In Declining Market

Net assets of Commonwealth Investment Company totaled $62,-123,057 at the close of business on Sept. 30, 1953. This compares with net assets of $61,470,000 on June 30, 1953, and net assets totaling $60,248,000 on Dec. 31, 1952. There are approximately 40,000 shareholders on the company's books at this time.

Commonwealth's portfolio is made up of 329 individual securities with 61.7% in common stocks, 21.2% in preferred stocks, 10.3% in corporate bonds and 6.8% is held in cash and U. S. Government bonds.

Mutual Funds

By ROBERT R. RICH

Assets Decline With Market; Net Sales Rise on Lower Cash-ins

Purchases of securities for their investment portfolios by 108 mutual funds, substantially exceeded their sales of such securities during the quarter ended Sept. 30, 1953, a period of generally declining markets, John Sheffey, Executive Secretary of the National Association of Investment Companies announced yesterday. Securities bought (excluding U. S. Government securities) totaled $201,637,000, whereas total sales were $127,698,000.

Total net assets of the 108 mutual funds were $3,857,375,000 on Sept. 30, 1953, compared with $3,-931,407,000 on Dec. 31, 1952 and $3,596,070,000 on Sept. 30, 1952.

Sales of new shares amounted to $511,637,000 for the first nine months of 1953, while net sales, after redemptions, were $329,694,-000. Gross and net sales for the same period last year were $568,-501,000 and $421,734,000, respectively.

Redemptions tended to dry up as the market declined this year. Third quarter redemptions were $50,540,000 (less than 1.3% of total net assets), compared with $63,-942,000 during the second quarter and $67,461,000 for the first quarter of 1953. Third quarter sales of new shares to investors exceeded redemptions by more than three to one.

OPEN-END STATISTICS—SEPTEMBER 30, 1953
108 OPEN-END FUNDS*

	Sept. 30, '53	June 30, '53	Dec. 31, '52	Sept. 30, '52
Total Net Assets	$3,857,375,000	$3,861,924,000	$3,931,407,000	$3,956,070,000

	3rd Quarter 1953	2nd Quarter 1953	1st 9 Months 1953	1st 9 Months 1952
Sales of shares	$152,072,000	$159,639,000	$511,637,000	$568,501,000
Repurchases	50,540,000	63,942,000	181,943,000	146,767,000
Net sales	$101,532,000	$95,697,000	$329,694,000	$421,734,000

Purchases and Sales of Portfolio Securities (Excluding U. S. Government Securities) July 1, 1953 to September 30, 1953

Purchases, $201,637,000 — Sales, $127,698,000

Holdings of Cash, U. S. Governments and Short-Term Bonds

Sept. 30, 1953	June 30, 1953
$248,853,000	$220,942,000

*The precise number of funds may vary slightly from quarter to quarter due to mergers, liquidations, new members, etc. Except to a minor degree, however, the figures for different dates are comparable.

	3rd Quarter 1953	2nd Quarter 1953	1st 9 Months 1953	1st 9 Months 1952
N. Y. Stk. Exch. Vol. (No. of shrs.—not dollars)	73,299,000	86,213,000	266,280,000	241,069,000

Wellington Gains 3.5% in Net Assets

Wellington Fund recorded an increase of $9,571,000 in net assets in the three months ended Sept. 30, 1953, to bring the total on that date to $262,055,331; according to the latest report.

The fund had moderately increased its common stocks during the depressed market in September. Principal investments that month had been made in selected chemical electronic and oil stocks following their decline to levels considered attractive.

The Fund had moderately reduced its common stocks in July and August. During these two months, the sales by the fund of commons were principally in the aircraft, container, electrical and railroad equipment fields, while the principal purchases were in the bank, oil and utility groups.

"The stock market," W. L. Morgan, President, noted to shareholders, "has continued to be very selective with considerable variance in the action of individual stocks. The more stable income stocks and some growth stocks have done relatively well, while many volatile stocks are down. For about a year," he continued, "your management has been anticipating these developments by following an increasingly conservative policy. In general, volatile stocks have been reduced and the more stable income stocks and dynamic growth stocks increased. Issues of well-established companies with strong trade positions were also increased."

The Fund had 61% of its net assets in common stocks at the close of the quarterly period; 25% in investment bonds and preferreds; 2% in appreciation bonds and preferreds; and 12% in governments and cash.

Business conditions were summarized in this way: "Business has continued at near the high level reached last spring, following a two-year upward trend. Recently there are signs of a moderate decline in business activity. The building of industrial plants and homes has slackened. The production of automobiles, household appliances and some other durable goods has been cut back to adjust supply with demand. Defense spending is somewhat lower due to revisions and cancellations. On the other hand, employment and national income are at peak levels, and liquid savings of the public are very large. This buying power should keep sales of most consumer goods at a satisfactory level. Steps have been taken to ease credit so that industry should find it easier to raise needed capital."

The total net assets of the Fund of $262,055,331 on Sept. 30, were equal to $19.56 a share on the 13,395,464 shares outstanding, compared with $252,483,390 on June 30, last, or $19.58 a share on 12,897,153 shares outstanding; and with $246,183,017 on Dec. 31, 1952, or $20.87 a share on the 11,794,699 shares then outstanding.

NATIONAL INVESTORS Corporation for all practical purposes remained 100% invested in common stocks according to the 66th quarterly report.

In the report Francis F. Randolph, Chairman of the Board and President, points out that common stocks selected during the third quarter continued to emphasize holdings in companies that might be expected to show resistance to a downtrend in general business activity or that have unusually good growth prospects.

On Sept. 30 the asset value of National Investors shares was $10.99 compared with $12.23 at the beginning of the year.

Net assets totaled $28,707,007 on Sept. 30 or about the same as a year earlier. At the end of the third quarter 11,768 shareholders owned 2,611,649 shares compared with 10,492 shareholders owning 2,401,459 shares on Sept. 30, 1952.

Bullock Analysis Warns Decline Could Accelerate

While foreseeing an orderly transition to a lower level of business activity through 1954, the October "Perspective," Calvin Bullock economic analysis, concedes that a downturn can develop accelerating tendencies which may upset previous calculations.

The analysis notes three developments of recent times which have an important bearing on the future course of the economy. "The first is the Federal Government's acceptance of a considerable degree of responsibility for maintaining a high level of employment. Acknowledged by both major parties and given legislative sanction in the Employment Act of 1946, action under this policy may be tending towards prevention of a serious recession by halting a preceding boom before it attained excessive heights. Thus we have an economic balance wheel of great potency, if of somewhat questionable efficacy.

"A second factor is that businessmen have a better understanding of economics and increasingly make plans with future cyclical movements in mind. Here again it is difficult to determine whether this will reduce or accentuate cyclical variations.

"A third factor is the increased proportion of consumers' income after taxes which is spent on nonessentials. Thus wide and abrupt variations in consumer spending can occur.

"The major economic forces which we see ahead for next year appear likely to reduce economic activity. Government spending at all levels in 1954 is expected to be $2.5 billion to $3.0 billion less than in 1953. While still larger than for any postwar year except 1953, the change in direction is significant, with all it implies for inventory requirements, employment and income, and prices

"The increasing slowness with which new housing is moving into buyers' hands indicates a smaller number of starts next year. Stimulants to plant investment in 1953 are not expected to be repeated next year and indeed taxes and business activity may be negative influences.

"A general decline in business activity or softening of prices would seem to impel business to reduce inventories. This could result in lower employment, particularly in the durable fields, with adverse effects on personal incomes and spending. What businessmen do about inventories will be a prime factor in the direction and rate of change of the economy. A policy of rapid liquidation of inventory could result in a substantial drop in economic activity.

"While it is true that a large proportion of spending units have no debt, those which have debt appear rather heavily burdened with installment payment, mortgage amortization, interest and life insurance premiums. It does not seem likely that consumer spending would increase or even remain stable in a period of falling prices.

"These economic factors seem to indicate a 5 or 6% drop in the Gross National Product for 1954—a change slightly greater than the rise from 1952 to 1953. While we have perhaps emphasized the unfavorable potentialities in the current picture, it seems reasonable to expect that intelligent management by business and government can keep the adjustment within moderate bounds."

George Putnam's Assets Rise to $62.8 Million

The George Putman Fund of Boston reports for the third quarter of 1953 an increase in net assets to a total of $62,885,669. Relatively few changes were made in its investments during the period, the common stock portion of the Fund as of Sept. 30, amounting to 63% of the total compared with 64% on June 30.

New common stock additions to the Fund indicated a preference for utilities, banks and insurance stocks. The three largest industry holdings on Sept. 30 were utilities, chemicals and oils, these three groups making up over a third of the total common stock investment.

Commenting on the current readjustment in business, George Putman, chairman of the trustees, stated: "In many ways this adjustment is entirely different from anything in our history. Instead of the old fashioned all up and all down style of correction, we have been having highly selective readjustments in industry after industry, with business activity as a whole remaining relatively steady. Secretary Humphrey recently called attention to this rolling type of correction which obviously has important investment implications."

New common stock additions to the Fund were: 15,000 Central Bank & Trust Co. of Denver, 10,000 International Utilities Corp., 15,000 Maryland Casualty Co., 15,000 New England Electric System, and 10,000 Ohio Oil Co.

Common stocks eliminated from the Fund were: 4,000 Cities Service Co., 8,000 Koppers Co., Inc., 25,000 New York Central RR. Co., and 10,000 Rhinelander Paper Co.

WALL STREET Investing Corporation on Sept. 30, 1953, had total net assets of $3,497,326, equal to $13.62 per share, compared with $3,430,243 on June 30, 1953, equal to $13.58 per share.

PERSONAL PROGRESS

The appointment of Frank T. Betz, Jr., as wholesale manager in the North Atlantic states for Delaware Fund was announced Tuesday.

Mr. Betz will represent the Fund in the New York, New Jersey and New England areas, where he has been actively engaged in the mutual fund field.

Mr. Betz is a graduate of Rider College with a Bachelor of Science Degree in Business Administration. During World War II he served with the 1st Marine Air Wing of the United States Marine Corps in the Pacific.

Fund Studies Probable Effect of Profits Tax Removal

Believing that there will be no excess profits taxes applicable to corporate earnings after Dec. 31 of this year, with the result that many corporations may substantially benefit, National Securities & Research has prepared a special study on three of its mutual funds — National Stock Series, National Income Series, and National Speculative Series — to determine the effect on earnings on each of the portfolio holdings when EPT expire.

In these special staff reports, the estimates of earnings and excess profits taxes were based: (1) on the examination of interim company reports published to date in 1953; (2) on comparison of excess profits taxes accrued in such 1953 interim reports with those for company fiscal or calendar years ended in 1952; (3) on projection of these interim reports for the balance of 1953 (modified where necessary by prevailing and prospective general or economic business conditions); (4) on consideration of each company's tax position of prior years including carry-back and carry-forward allowances, and (5) on such information as was available regarding renegotiation of defense contracts.

The estimates made on the portfolio holdings below are, of course, subject to the final decisions of corporate managements on such items as the charges to be accrued for accelerated amortization of emergency facilities, inventory write-offs, extraordinary expenses incident to defense business, and the treatment accorded capital gains and losses.

NATIONAL STOCK SERIES

Issues—	Preliminary Estimates 1953 Earnings per Share	Preliminary Estimates 1953 Excess Profits Tax per Share
American Bakeries Co.	$2.75	$0.05
American Brake Shoe Co.	4.20	0.80
American Chain & Cable Co., Inc.	4.25	1.00
American Radiator & S. S. Corp.	1.80	0.14
American Steel Foundries	5.20	1.80
American Tel. & Tel. Co.	11.25	0.40
Armco Steel Corp.	6.50	2.35
Associated Dry Goods Corp.	2.75	0.07
Atchison, Topeka & Santa Fe Ry. Co.	14.00	0.20
Bank of America N. T. & S. A.	2.35	0.10
Bethlehem Steel Corp.	11.50	3.00
Black & Decker Manufacturing Co.	6.50	1.35
Bliss & Laughlin, Inc.	4.00	2.40
Boeing Airplane Co.	10.00	6.50
Borden Company	4.50	0.25
Borg-Warner Corporation	8.50	2.00
Bridgeport Brass Co.	5.25	3.40
Briggs & Stratton Corp.	5.50	2.60
Bucyrus-Erie Company	3.25	0.65
Buffalo Forge Company	5.75	0.50
Campbell, Wyant & Can. Fdry. Co.	4.00	1.00
Chicago Pneumatic Tool Co.	10.00	5.00
Chrysler Corporation	8.50	2.75
Cincinnati Milling Machine Co.	12.50	7.50
Colorado Fuel & Iron Corp.	3.09	0.94
Combustion Engineering, Inc.	7.00	1.00
Consolidated Vultee Aircraft Corp.	3.50	1.10
Continental Baking Co.	4.25	0.25
Cream of Wheat Corp.	2.00	0.15
Dana Corporation	4.50	1.50
Eaton Manufacturing Co.	5.50	2.75
Electric Auto-Lite Co.	7.25	0.60
Fruehauf Trailer Company	4.00	0.25
General Electric Co.	5.50	3.40
General Motors Corp.	6.00	2.25
General Railway Signal Co.	3.50	2.20
Gillette Company	4.00	0.65
Goodyear Tire & Rubber Co.	9.00	2.50
Greenfield Tap & Die Corp.	3.40	1.20
Grumman Aircraft Engineering Corp.	3.00	1.90
Ingersoll-Rand Company	9.50	2.50
Inland Steel Company	6.50	1.25
Interlake Iron Corp.	2.95	0.40
International Harvester	3.75	0.33
Jones & Laughlin Steel Corp.	5.25	0.25
Joy Manufacturing Co.	5.00	0.15
Kelsey Hayes Wheel "B"	3.25	0.50
Kennecott Copper Corp.	8.00	0.50
Libbey-Owens-Ford Glass Co.	3.25	0.50
Mead Corporation	4.30	1.25
Melville Shoe Corp.	2.20	0.25
Mesta Machine Co.	4.25	1.00
Motor Wheel Corp.	3.50	0.50
National Acme Co.	6.10	4.00
National Automotive Fibres, Inc.	3.50	0.50
Nat'l Malleable & Steel Casting Co.	5.00	1.70
National Steel Corp.	6.50	1.10
Otis Elevator Co.	5.00	0.50
Parker Rust Proof Co.	4.00	1.00
Phelps Dodge Corp.	3.50	0.05
Republic Steel Corp.	9.25	5.00
Richfield Oil Co.	6.75	1.07
Rockwell Spring & Axle Co.	3.00	1.60
Sharon Steel Corp.	7.10	3.20
Simmons Company	5.50	0.50
Sunbeam Corporation	3.75	0.20
Technicolor, Incorporated	2.50	0.90
Thew Shovel Co.	3.90	2.35
Union Bag & Paper Corp.	6.25	0.40
United Aircraft Corp.	6.50	4.00
United States Rubber Co.	4.25	2.50
United States Steel Corp.	7.00	2.50
Western Auto Supply Co. (Mo.)	6.75	0.46
Westinghouse Electric Corp.	4.50	1.10
Wheeling Steel Corp.	8.00	1.00
White Motor Co.	4.75	0.25

NATIONAL INCOME SERIES

Issues—	Preliminary Estimates 1953 Earnings per Share	Preliminary Estimates 1953 Excess Profits Tax per Share
PREFERRED STOCKS		
Amer. Locomotive Co. 7% cum.	$31.00	$9.00
Curtis Pub. Co. $3-$4 cum. pr.	7.00	0.15
Curtiss-Wright $2 cv. "A"	10.00	3.00
General Steel Castings Corp. $6 cum.	35.00	13.00
Kaiser Steel Corp. $1.46 cum.	5.73	3.30
Moody's Investors Serv. $3 part. cum.	3.75	0.25
Pittsburgh Steel Co. 5½% cum. prior	37.50	2.55
U. S. Rubber Co. 8% pfd. non-cum.	44.00	19.50
COMMON STOCKS		
Amer. Agric. Chemical Co.	6.00	0.50
American Bakeries Co.	2.75	0.05
American Brake Shoe Co.	4.20	0.80
American Chain & Cable Co.	4.25	1.00
American Inv. Co. of Illinois	2.50	0.30
American Radiator & S. S. Corp.	1.80	0.14
Armco Steel Corp.	6.50	2.35
Bank of America N. T. & S. A.	2.35	0.10
Bethlehem Steel Corp.	11.50	3.00
Borg-Warner Corp.	8.50	2.00
Chicago Pneumatic Tool Co.	10.00	5.00
Chrysler Corporation	8.50	2.75
Comb. Engineering Inc.	7.00	1.00
Consolidated Vultee Corp.	3.50	1.10
Container Corp. of America	4.60	1.75
Dana Corporation	4.50	1.50
Eaton Manufacturing Co.	5.50	2.75
General Motors Corp.	6.00	2.25
General Time Corp.	4.50	0.15
Goodyear Tire & Rubber Co.	9.00	2.50
Ingersoll-Rand Co.	9.50	2.50
Kelsey-Hayes Wheel "B"	3.25	0.50
Kennecott Copper Corp.	8.00	0.50
Libbey-Owens-Ford Glass Co.	3.25	0.50
Lockheed Aircraft Corp.	6.00	3.00
Melville Shoe Corp.	2.20	0.25
National Acme Co.	6.10	4.00
National Cylinder Gas Co.	2.50	0.33
Nat'l Malleable & Steel Cast.	5.00	1.70
New York Air Brake Co.	2.90	1.00
Phelps Dodge Corp.	3.50	0.05
Rockwell Spring & Axle Co.	3.00	1.60
Standard Oil, Ky.	4.00	0.52
Sunshine Biscuits, Inc.	5.90	0.20
United Aircraft	6.50	4.00
United Shoe Machinery Corp.	3.00	0.10
United States Gypsum Co.	12.00	2.50
United States Steel Corp.	7.00	2.50
West Penn Electric Co.	3.30	0.12

NATIONAL SPECULATIVE SERIES

Issues—	Preliminary Estimates 1953 Earnings per Share	Preliminary Estimates 1953 Excess Profits Tax per Share
PREFERRED STOCKS		
Curtiss-Wright Corp. $2 "A"	$10.00	$3.00
COMMON STOCKS		
American Radiator & S. S. Corp.	1.80	0.14
Armco Steel Corp.	6.50	2.35
Armstrong Rubber Co. "A"	4.75	0.60
Black & Decker Mfg. Co.	6.50	1.35
Bliss & Laughlin, Inc.	4.00	2.40
Bridgeport Brass Company	5.25	3.40
Bucyrus-Erie Company	3.25	0.65
City Auto Stamping Co.	3.00	1.00
Con. Vultee Aircraft Corp.	3.50	1.10
Curtiss-Wright Corporation	1.25	0.40
Dana Corporation	4.50	1.50
General Outdoor Adv. Co., Inc.	3.50	0.10
General Time Corp.	4.50	0.15
Gt. Northern Iron Ore Prop.	1.30	0.30
Hubbell (Harvey), Inc.	3.25	1.40
Inspiration Con. Copper Co.	4.00	0.40
Interchemical Corporation	3.50	1.55
Interlake Iron Corporation	2.95	0.40
Joy Manufacturing Company	5.00	0.15
Kelsey Hayes Wheel Co. "B"	3.25	0.50
Kennecott Copper Corp.	8.00	0.50
Master Electric Company	2.50	0.30
National Acme Company	6.10	4.00
National Automotive Fibres, Inc.	3.50	0.50
National Mall. & Steel Casting Co.	5.00	1.70
Neptune Meter Company	3.25	1.00
North American Aviation, Inc.	3.00	1.90
Phelps Dodge Corporation	3.50	0.05
Poor & Company "B"	2.60	0.50
Reo Motors Incorporated	5.00	2.75
Republic Steel Corporation	9.25	5.00
Robertshaw-Fulton Cont. Co.	2.00	0.75
Sharon Steel Corporation	7.10	3.20
Stewart-Warner Corporation	3.40	2.00
Vanadium-Alloys Steel Co.	2.66	1.24
White Motor Company	4.75	0.25

Securities Salesman's Corner

By JOHN DUTTON

The Living Trust Can Create Large Sales for You

There are only a few things that any of us really wish to do when we invest money, and not the least of these is **to attempt to protect our families as much as we can do it.** Most people are very much unaware of what can happen if securities, cash, and liquid property is left to their families without making provision that these funds will not be dissipated. One of the most powerful emotional appeals you can place before any man—and sometimes women—is to show them how they can set their estate up in a way that will give some measure of protection to their loved ones.

The other day a sale of substantial consequence was made to a man who had a wife that he wished to protect. He inquired about certain common stocks that would pay dividends regularly. When it was shown to him that it was possible to use a good Mutual Fund and for a small fee have a bank in his own city hold the shares under a revocable living trust agreement, giving him the income while he lived and thereafter to his wife, he invested without hesitation. The sale was made because it was pointed out to him that—

A Living Trust Would Do These Important Things

It would relieve his wife of the risks and responsibilities of management of at least 10 different common stocks—with all attendant details of collection of dividends, reporting them, etc. etc.

It would make it impossible for well meaning friends to give her bad advice.

It would relieve her of worry because she could depend upon continuous income and the substantial nature of her investment.

It would save her from the appeals of needy relatives and friends who might wish to impose on her. Having her capital tied up in a trust she could always say, "I'd like to but my funds are in trust and I only receive the income."

It would relieve her of making decisions for which she was not qualified by training or experience, and even those who might wish to separate her from her money through the use of questionable practices would be unable to do so.

It would also save her the expenses of putting that portion of her estate through probate and the legal fees involved. Such fees average around 7½% on any sizable sum involved and in some cases will be more when there is real estate.

It would save disclosure of that portion of the estate which was left under a revocable living trust, and the income would continue on without interruptions and delays which would be incurred if the estate were left outright to the wife and she had to go through the long involved court procedure before it finally passed to her. No inheritance taxes would be saved by the establishment of a revocable living trust and it is advisable to have an attorney counsult with the client if one is drawn up, so that all the rest of the estate as well as the funds in trust are protected tax-wise and from every other angle.

I am only giving you the reasons why **people buy.** The mechanics can be arranged by you, your lawyer (or the client's lawyer) and the trust officer of your bank. Some local banks are charging $2.50 a thousand for setting up these simple living trusts using Mutual Funds as the repository for the assets of the trust, with a minimum of $20,000 the least amount that can be used for this purpose.

Tax Savings Are Also Possible

In the simple case just referred to there were no children and the tax savings that could be created by using irrevocable living trusts were not a major consideration. Howerever, the use of the irrevocable trust to save estate taxes can be of substantial consequence to many larger investors. Practically all the leading Mutual Funds today will be able to give you information and tell you where you can find other sources that will help you to understand this very important subject. Saving money on inheritance taxes can be of vital importance to many investors, especially where they wish to pass on as much of their property as possible to their children and grandchildren without having it unnecessarily shrunken by taxation.

Touch the Vital Interest

The more you study your business I think you will agree that there is usually one **main reason** why people do things. In some cases a man loves his wife and his family to the extent that if you can show him that he can make things safer and less bothersome for them that there is no question about his going ahead. Sometimes a man has a wife that is not capable of managing securities and he knows it—other times he may have children who are in this position—show him how he can arrange his affairs to give his family peace of mind and as much protection as any can possibly achieve, and I think you'll not have to work very hard to sell him statistics and balance sheets.

There are many variations of how people can use the revocable living trust to protect their families. There are cases where a relative may have a spouse that is not in favor, or who could not be relied upon to handle principal properly. A living trust leaving the income to the proper heir and the corpus to a charity, or others, makes it impossible for capital to be dissipated by the demands of an unreliable husband or otherwise.

Find out as much as you can about your customers—then see if there is a way that you can help them to obtain all the advantages of a sound investment during their lifetimes and the protection of their families after they are gone. This makes a very powerful appeal for business and if you can develop a competence in this field it will bring you substantial income and very great satisfaction as well.

Russell C. James With First of Michigan

(Special to The Financial Chronicle)

COLUMBUS, Ohio.—Russell C. James has become associated with the First of Michigan Corporation. Mr. James was formerly manager of the Columbus office of Baxter, Williams & Co. Prior thereto he was with Westheimer & Company and Merrill, Turben & Co.

Fabian Adds to Staff

(Special to The Financial Chronicle)

BEVERLY HILLS, Calif. — Harold B. Johnson has been added to the staff of Fabian & Company, 9500 Santa Monica Boulevard.

Continued from first page

Outlook for Interest Rates

without saying that in a few minutes I can't tell you everything that I know or that I don't know about interest rates, and therefore I will merely whet your appetite and give you a few highlights.

Factors Back of Money Rates

Money rates are not formulated in a vacuum. Money rates are the result of (a) business activity; (b) the position and needs of the Treasury; (c) the debt management policy of the Treasury which, as the last few months has indicated, is a very important factor in the money market; and finally, the policies of the Reserve authorities, which, in turn, are or should be guided by business activity, the movement of commodity prices, the movement of employment, and the position and needs of the Treasury.

Therefore, if you want to find out what money rates will do in the future; if you want to know whether bonds are a good buy or not; if you want to find out what equities, which move more or less in unison with interest rates will do, you ought to master the subject of money rates. It is part of your tools, and if you don't know how to handle the tools, you are just half-baked security men.

Have I made it clear?

Now, we therefore have to analyze these four forces: Business activity, position of the Treasury, debt management policy, and policies of the Treasury.

All four are not clear-cut. Nobody can tell today what business activity will be next year. Nobody can tell what other people will do; what the debt management policy of the Treasury will be, or what the credit policies of the authorities will be. But, if we take into account all factors, as we see them, and naturally the average individual is limited in his vision, and analyze them carefully, weigh them and measure them, we will reach certain definite conclusions. Should something unforeseen happen, as, for example, the Korean War, which came entirely unexpectedly to me, then I change my mind immediately. But, for the time being, we will analyze only those forces that we can foresee.

Business Activity

The peak of the postwar boom is past. The index of industrial activity stood, in March and April, at 243. It went down to 238 in August. It is probably at 235 in September, and will be at the end of the year a little lower than at present. The boom is over.

Whether we will have a serious recession or a readjustment, nobody can tell. In my opinion, we are not headed for a serious readjustment or a serious decline of business. In my opinion, what we will see is a wholesome readjustment, which is the process through which our economy cleanses itself of the incompetence, of the inefficiencies and the weaknesses that grow up in a period of a seller's market.

We are headed for a cleansing process.

To make it still clearer, some of you who live in this country know that usually during February and March, there are strong winds. That is the way whereby nature cleans the trees of dead branches, dead leaves, and so forth. This cleansing process which has already started will clean out the deadwood in business, and the deadwood also among security analysts who don't know their business.

The pattern of business will be one of keen competition, perhaps keener than ever before in the history of the country, partly because the productive capacity of the country is so much greater than it was at the end of the war; partly because so many new companies have been established; and partly because so many new products are being produced and have been produced.

The volume of business on the whole will remain large. Margins of profits will tend to decrease. Unemployment—which is at present non-existent—will tend to increase moderately, and in labor, too; the seller's market will be converted into a buyer's market.

During this cleansing process—some people call it a readjustment, other people call it a recession, you call it whatever you want—the demand for credit will decrease. A lower volume of business activity will lead to a smaller demand for commercial loans. Inventories, in all probability, will be reduced. Consumer credit, which is at a very high level, in all probability will be curtailed.

All this, plus the elimination of the Excess Profits Tax, will lead to a reduction in bank credit.

In part, this will be counteracted by (1) an increase in borrowing for tax purposes, stimulated by the operation of the Mills Plan; (2) the Government, because it cannot increase the debt limit, will tend to shift some commodity corporation paper on the commercial banks, and, by the same token, the Federal Government, in order not to be forced to call on the Congress to raise the debt limit, will tighten up on the progress payments to manufacturers of war equipment, and these, in turn, will be forced to borrow more from the banks.

But, taking it all in all, the demand for money, for short-term money, ought to decrease.

(3) The demand for long-term capital from the private sector of the economy, with the exception of the utilities, will also decrease. Capital expenditures by corporations next year will be smaller. In all probability, the number of homes erected and privately financed, will be smaller. Already, we have seen that home "starts" are decreasing, and in all probability, the total number of homes started and finished next year will be smaller than it was in the previous three years.

We find that the outlook for business, as we see it at present, is for a decline of moderate proportions, accompanied by a decline in the demand for credit, as well as capital.

I repeat, this is as conditions are at present. Something unforeseen may happen. If, for example, the government should suddenly decide that we have to spend $10 billion more for national defense, then change your opinion; changed conditions will bring about changed results. But as conditions are today, I say to you that as of today the outlook is for a decrease in the demand for funds.

The Needs of the Treasury

We come to the second point—the needs of the Treasury. Again, we can analyze it only from the point of view of conditions as they are today. Should a change take place, then we change our opinion.

As of today, the situation is this: The debt limit imposed on the government is $275 billion. As of the end of September, the total debt outstanding in the United States amounted to $272.4 billion. The Treasury, therefore, can borrow only about $2.6 billion. Then it reaches the debt limit and it cannot go beyond it until the Congress reconvenes, and the Congress raises the debt limit.

It is, therefore, quite evident that the Treasury will not borrow $2.6 billion, but maybe $1½ billion, a maximum of $2 billion, in order to have a tiny bit of a leeway. This borrowing will come towards the end of this month or the early part of next month.

A billion and a half dollars, or a maximum of $2 billion—under present conditions—is not much, particularly if we take into account the fact that part of these securities may be long-term, part medium-term, part of them short-term; and the demand for short-term and medium-term securities, at present, is quite strong.

According to the budget estimate presented by the President of the United States in August, the deficit of the Federal Government for this fiscal year will be $3.8 billion. This is the legislative budget. On a cash basis, therefore, the budget ought to be either balanced or show a deficit of about $500 million. This budget estimate—if it remains—indicates that the Treasury will not have to borrow much money. In the first half of the year, the revenues of the Treasury are large. Next year, for example, corporations will pay 45% of their 1953 tax on March 15 and 45% on June 15, resulting in a Treasury surplus for the first half of the year, and a deficit in the second half. If conditions remain as they are today, the Treasury, as such, should not be an important borrower in the market in the next 12 months.

Should conditions change, then you change your opinion accordingly.

Debt Management

Now comes the question of debt management. The management of the public debt in the early part of this year did not show the skill nor the technique that we had every reason to expect, with the result that bond prices dropped very sharply, and a few weeks ago the 2½% government bonds of 1967/72 were selling at 89. Last night they closed at over 95. The debt management in the early part of the Administration was not well handled. But a lesson was learned.

I believe every human being makes mistakes. So long as a man lives, he will make mistakes. When he stops making mistakes, he is through. But teach yourself and train yourself never to make the same mistake again. I don't think that the Treasury will make the same mistake again. The mistake which the Treasury made was in assuming that the Treasury could compete aggressively with a private sector of the economy for new money in a period when the demand for long-term funds was very high, and when corporate taxes were as high as they are today. The Treasury soon learned.

I doubt very much whether the same mistake will be repeated again. Therefore, I reach the conclusion that the debt management in the future—and by debt management, I mean the selling of new securities for the purpose of borrowing new money or the refunding operations of the Treasury—will be handled more carefully; that the securities will be tailored to the needs and requirements of the market, and that the issue will be handled in such a manner as not to disorganize the money market and the capital market.

Federal Reserve Policy

We come now to the Reserve policy. As I stated before, the Reserve policy will be determined by business activity and by the position and needs of the Treasury. In my opinion, the Reserve authorities, too, operated under a misapprehension until about the end of May. Until the end of May, the Federal Reserve authorities operated on the assumption that we are still confronted with inflation.

Secondly, the Federal Reserve authorities were preaching the gospel of an independent central bank, independent of the Treasury. Their argument was that a central bank's obligation must concern itself exclusively with the legitimate credit needs of the country and the position and needs of the Treasury, and that the position and needs of the Government Bond market is none of their business.

I believe that they, too, have learned a lesson. And this belief is based on these facts:

When the Reserve authorities realized the mistakes they had made, they immediately changed their open market policy; whereas, during the first five months of 1953, the Federal Reserve was a seller of Treasury bills on the open market, since the beginning of June the Treasury has been a constant buyer of Treasury bills, and the Federal Reserve lowered the reserve requirements of Reserve cities and country banks by 2%, and in New York and Chicago by 1%, thereby freeing $1,100,000,000 of reserves. And I am quite sure, in my own mind, that from now on, the policy of the Reserve authorities will be guided by (1) a desire, through lower money rates, to prevent any moderate readjustment from becoming more serious; (2) the Federal Reserve authorities have learned that the Federal Reserve and the Treasury must cooperate, otherwise it will lead to difficulties.

And therefore I reach the second basic conclusion — that the Federal Reserve authorities will, through either open-market purchases or through lowering of the discount rate, or a combination of both, furnish the banks with adequate reserves to meet all the legitimate requirements of industry and trade, of the tax-levying bodies and the public authorities, and assist the Treasury in its refunding operations.

The Availability of Capital

And then we have one more factor to consider, and we can draw the general conclusion. And the final factor to consider is the amount of capital seeking an outlet in long-term bonds or mortgages.

What is the status on the supply side of long purchases?

(1) The savings of the nation have become institutional in character.

(2) The volume of life insurance is constantly increasing.

(3) We save today through pension funds.

(4) The savings of the nation have become contractual in character. Once you buy a policy, you are taking a contractual obligation. You have undertaken a contractual obligation, and you have to maintain it, and these funds will accumulate in good times and bad times.

(5) A large portion of the savings of the nation are negative in character; negative in the sense that the payment of debts is so tremendous that those who are entrusted with the obligation of investing money have to work very fast in order to invest the money flowing into them from the payment of outstanding debt.

In my humble opinion, the supply of funds seeking outlet in long-term bonds and mortgages, therefore, is bound to be large, and will be more than adequate to meet the requirements of industry and trade, of the increase and demand for funds on the part of states, municipalities and public authorities, and to meet the moderate requirements of the Treasury.

Summary

I can now summarize my remarks and give you the conclusions:

Money rates will depend on business activity, position of the Treasury, the Reserve authorities.

The short-term demand for money in the next 12 months will be somewhat smaller than it was during the past 12 months.

The supply of funds at the disposal of the banks will be larger, either through increased open-market purchases by the Reserve authorities or the lowering of the Reserve requirements, and possibly both.

The demand for capital from the private sectors in the next 12 months will be smaller than in the previous 12 months, although the demand from public authorities, municipalities, etc., will be greater.

The supply of funds seeking an outlet in long-term obligations will remain large, and will be more than adequate to meet all legitimate requirements.

And, therefore, one can reach the final conclusion, namely, we have seen the peak in money rates. And, while it is quite evident that bond prices are bound to go up and down, in my opinion, the trend of interest rates, short-term as well as long-term, is down, unless something unforeseen occurs, and if it occurs, it is up to you to analyze as carefully as you can the impact it will have on the money market, on the capital market, and to draw the proper conclusion.

Tri-Con's Assets Decline Slightly

TRI-CONTINENTAL Corporation continued as the country's largest diversified closed-end investment company with gross assets of $170,455,884 on Sept. 30 shown in the report for the third quarter. This compares with gross assets of $171,423,105 three months ago and $177,029,786 after the merger with Capital Administration Company, Ltd., on April 8, 1953.

After deducting liabilities and reserves, net assets were equivalent to $23.36 per share of common stock on Sept. 30, compared with $23.52 on June 30, 1953 and $23.94 a year earlier. The report shows asset coverages of $8,643 per $1,000 principal amount of debentures outstanding and $340.53 per share on 405,370 shares of $6 preferred stock.

According to the report a dividend of 20 cents per share on the common stock was declared for the third quarter making a total of 60 cents to date this year. Francis F. Randolph, Chairman of the Board and President, said that net investment income normally is larger in the fourth quarter as portfolio companies tend to pay any special or extra dividends in that period and that it is anticipated that the final dividend for 1953 will be considerably larger than that declared for the third quarter.

The report reveals that common stock investments including the stock of Union Securities Corporation were maintaind at approximately 80% of net investment assets with continued emphasis on holdings that might be expected to show resistance to a downtrend in general business activity. Public utility common stocks, which represents Tri-Continental's largest single industry investment, were further increased during the quarter and accounted for 18.0% of net investment assets on Sept. 30, as against 16.6% on June 30, and 13.9% a year earlier. Oils, which remain the second largest group, accounted for 13.4% of net assets as against 14.3% on June 30, 1953 and 17.9% on Sept. 30, 1952.

Tri-Continental established one new common stock investment position during the quarter with the purchase of 7,500 shares of Louisiana Land & Exploration.

Principal increase in common stock holdings were 9,300 American Tobacco, 8,700 General Electric, 13,100 American Can, 10,300 Pacific Gas & Electric, 30,000 Canada Dry Ginger Ale, 6,400 Continental Can, 6,300 Reynolds Tobacco "B." 7,500 Illinois Power and 3,600 Corn Products Refining.

During the period, Tri-Continental eliminated portfolio positions by the sale of 9,600 Borg-Warner, 5,700 Standard Oil of Indiana, 19,700 Merck, 5,200 Reynolds Metals and 1,400 Houston Oil.

Reductions in common stock holdings included 8,000 Northern Pacific, 8,600 Johns-Manville, 17,500 Celanese, 6,600 Seaboard Air Line Railroad, 7,700 Union Bag & Paper, 5,000 Goodyear Tire & Rubber and 2,000 Chicago, Rock Island & Pacific.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

The Chase National Bank, New York announces the following appointments on its official staff:

At the head office, George Lang was promoted to Second Vice-President in personnel relations, and Harry A. Howland and William J. Schmidt are now Assistant Cashiers in branch loans.

In New York City branches, John C. Lawrence was promoted to Second Vice-President at Times Square Branch, Winfield F. Hanrahan was made Manager at Peter Cooper, and the following are new Assistant Managers: Arthur E. Albracht at Rockefeller Center, James H. Harris at 42nd Street, Robert S. Stapleton at 57th Street, Charles Streichenwein at Rockefeller Center, and Edwin E. Worsoe at 34th Street.

* * *

Bankers Trust Company, New York on Oct 20 contributed $500 to the memorial building fund of the Overseas Press Club in the opening phase of the drive launched in New York's financial district. The check and a miniature replica of the Bankers Trust Company building were presented to Mrs. Fleur Cowles, Associate Editor of "Look," Campaign Treasurer, and A. Wilfred May, Vice-President of the club, by Edward T. Hetzler, Assistant Vice-President of the bank.

* * *

Appointment of Frederick M. Roos as an Assistant Vice-President of **Manufacturers Trust Company, New York,** was announced by Horace C. Flanigan, President. Mr. Roos will succeed the late Martin Gehringer as Officer in Charge of the Ridgewood Office of the bank at 55-60 Myrtle Avenue, Ridgewood, Queens, N. Y.

Mr. Roos began his banking career in 1921 with the Montauk Bank, which merged with the Manufacturers Trust in 1927.

Also the appointment of Andrew S. Sawers as an Assistant Vice-President was announced on Oct. 22.

Mr. Sawers came to the bank in 1938 and has worked in various departments and offices until 1951 when he was appointed an Assistant Treasurer.

Mr. Sawers is assigned to the Metropolitan Division of the Banking Department.

* * *

Arthur F. McGinness has been appointed Manager of the Times Square Office of **Chemical Bank & Trust Company, New York,** it was announced Oct. 16 by Mr. N. Baxter Jackson, Chairman.

* * *

The Quarter Century Club of the **Bank of the Manhattan Company, New York,** held its 12th Annual Dinner on Oct. 14 at the Biltmore Hotel. Fifty-five new members were welcomed by Mr. J. Stewart Baker, Chairman of the Board.

Mr. Lawrence C. Marshall, President, presented additional awards to 32 members who have completed 30 years of service and 25 who have served the Bank for 35 years. He also made awards to five members of the staff who have completed 40 years of service and three who have rounded out 45 years.

The total membership of the Club now consists of 92 women and 400 men of whom 76 are retired.

The following officers were elected for the ensuing year:

Charles H. Seuling—President
Emil C. S. Iseli—Vice-President
Margaret M. Kidd—Treasurer
Dorothea E. Rampmaier—Secretary.

* * *

George C. Wildermuth, prominent Brooklyn attorney, has been elected a member of the Board of Trustees of **The Dime Savings Bank of Brooklyn, N.Y.** it was announced on Oct. 19 by George C. Johnson, President of "The Dime."


G. C. Wildermuth

Mr. Wildermuth is President of the Brooklyn Bar Association; Police Justice of the Village of Garden City; member of Special Transit Committee of the City of New York; Director and Counsel of the Downtown Brooklyn Association; member of the Grievance Committee of the New York State Bar Association; and Chairman of the Tax Revision Committee of the Brooklyn Real Estate Board.

* * *

A 5% stock dividend has been recommended for stockholders of **The County Trust Company, White Plains, N. Y.,** by the bank's Board of Directors, according to an announcement made on Oct. 19 by Mr. Andrew Wilson, Chairman of the Board. A precedent for this stock distribution was set a year ago when a similar recommendation was approved by stockholders.

The dividend will be in the ratio of one new share for each 20 shares now outstanding and will be distributed immediately following the approval of the stockholders and state supervisory authorities. The proposal will be presented to the stockholders at their annual meeting on Jan. 20, 1954, Mr. Wilson said. If approved, it is planned to transfer sufficient funds from reserves and undivided profits to increase the stated capital funds to approximately $15½ million.

Mr. Wilson pointed out that any stock dividend will be in addition to the cash dividend which have been paid quarterly for a period of years. The bank has paid a total of 172 consecutive cash dividends.

* * *

Glen Cove Trust Company, Glen Cove, N. Y., received approval on Oct. 9 from the Banking Department of the State of New York to increase its capital stock from $300,000 consisting of 6,000 shares of the par value of $50 per share, to $450,000, consisting of 9,000 shares of the same par value.

On the same day a Plan of Merger with **The Nassau Union Bank** into Glen Cove Trust Company under title of **"Glen Cove Nassau Union Trust Company"** was filed.

* * *

The Morristown Trust Company, Morristown, N. J. plans to increase its capital funds by $40,000 through payment of a year-end dividend in stock rather than in cash. The proposal would raise the bank's capital stock from $880,000 to $920,000 and may be followed by "similar action in succeeding years" until capital stock reaches $1,000,000.

According to a letter mailed to its stockholders, the bank plans to increase the number of its shares outstanding by 2,000 this December through payment of a stock dividend of one share for each 22 held. Par value would remain unchanged at $20 a share. Stockholders are asked to act on the proposal at a special meeting on Oct. 29.

George Munsick, President, explained on Oct. 17 that the directors were prompted to recommend the plan by the growth of the bank's deposits.

In the letter to stockholders the Board of Directors stated its "hope that circumstances will permit similar action in succeeding years until the capital stock of the company is increased to $1,000,000."

Based on the present market price of the bank's stock, the proposed stock dividend would be equivalent to about $1.80 per share, the letter stated. In recent years the stock has paid $1.25 a share in cash each December, of which 50 cents was designated as extra dividend; and 75 cents each June.

At the end of last June the Morristown Trust Company's total deposits were $26,457,000, compared with $25,426,000 on June 30, 1952 and $19,560,000 at the same date in 1948.

The last increase in the capital accounts of the 61-year-old institution occurred in 1946, upon the occasion of its merger with the American Trust Company. At that time capital and surplus were each increased from $800,000 to their present $880,000.

If the proposal is voted and approved at the stockholders' meeting, and approval is obtained from the State banking authority, each of the bank's 670 stockholders will be notified of the number of any full shares and the amount of any fractional interest to which he will be entitled by reason of the stock dividend. Arrangements will be made by the trust company for the purchase or sale of fractional interests without cost to the stockholder.

* * *

By a stock dividend effective Oct. 7, the **Woodbridge National Bank, Woodbridge, N. J.,** increased its common capital stock from $100,000 to $300,000.

* * *

Charles T. Fisher, Jr., President of **National Bank of Detroit, Mich.,** announced on Oct. 19, that of the bank's offering of 313,200 shares of its common stock to its common stockholders in the ratio of one for five, rights for which expired on Oct. 15, subscriptions aggregated 305,365 shares. The remaining 7,835 shares have been purchased by an underwriting group headed by Morgan Stanley & Co.

* * *

The board of directors of **Chicago Title and Trust Company, Chicago, Ill.,** at a meeting on Oct. 14 elected Paul W. Goodrich President and Chief Executive Officer of the company. Mr. Goodrich has been Vice-President and manager of the company's title division since 1947.



Paul W. Goodrich Holman D. Pettibone

Holman D. Pettibone, President for the past 22 years, was named Chairman of the Board. John D. Binkley, Vice-President, was named Manager of the title division.

These top executive changes in the 106-year-old Chicago company wil lbecome effective Dec. 1, it was stated by Mr. Percy B. Eckhart who acted as spokesman for the board of directors in making the announcements.

The new President of Chicago Title and Trust Company began his career with the organization 22 years ago as a preliminary examiner in the title division. He was appointed Assistant Vice-President in 1945 and Vice-President in 1947.

Mr. Holman D. Pettibone, new Chairman of the Board of Chicago Title and Trust Company, has held a prominent place in the real estate and financial life of Chicago and the Middle West for the past two decades.

He joined the company as a college graduate in 1911. Just 20 years later, in 1931, he became President of the company at a time of severe nation-wide economic depression. His direction of Chicago Title and Trust through these difficult years brought the company to its present position of financial strength as reflected by its last published financial statement showing assets in excess of $48 million.

The trust division of the company has also been aggressively developed under Mr. Pettibone's direction.

Mr. John D. Binkley, named Manager of the title division of the company, has been a member of the company's staff since 1925. He was elected a Vice-President in 1947 and in 1951 was made responsible for the company's title operations outside of Cook County, development of new title business, and reinsurance business.

* * *

Daniel O'Day has been elected a Vice-President of **The Northern Trust Company of Chicago, Ill.** in charge of the bank's New York City office, it was announced on Oct. 20. Mr. O'Day previously was 2nd Vice-President with headquarters in the New York City office.

* * *

The stockholders of **Mercantile Trust Company of Baltimore, Md.,** and of **Safe Deposit and Trust Company of Baltimore, Md.,** at separate meetings held on Oct. 19, approved the proposal for the merger of these institutions. The two-thirds vote necessary for approval was greatly exceeded, being over 93% at both meetings. There were no dissenting votes. The Boards of Directors of the respective institutions had previously approved the proposal and the Bank Commissioner of Maryland has approved the merger agreement. The new institution will commence business on Oct. 20.

The merged Trust Company, known as **Mercantile-Safe Deposit and Trust Company,** is State chartered and will continue to use the charter of the Safe Deposit, which was originally granted in 1864.

The resulting institution has capital and surplus of $15,000,000, undivided profits of more than $2,000,000 and total resources of approximately $100,000,000.

Directors of Mercantile-Safe Deposit and Trust Company are:

Messrs. Charles H. Babcock, Daniel Baker, Jr., Summerfield Baldwin, Jr., Fred G. Boyce, Jr., S. Bonsal Brooks, Donaldson Brown, Thomas B. Butler, J. Crossan Cooper, Jr., Alfred E. Cross, A. E. Duncan, William L. Galvin, Charles S. Garland, R. L. Hockley, D. Luke Hopkins, Richard N. Jackson, George F. Lang, A. C. Levering, Edwin W. Levering, Jr., Edwin F. A. Morgan, S. Page Nelson, Walter F. Perkins, A. H. S. Post. Milton Roberts, Donald H. Sherwood and Roy B. White.

A previous item about the merger appeared in the Oct. 1 issue of the "Chronicle" page 1258.

* * *

The First National Bank of Clarksville, Tennessee, increased its common capital stock from $100,000 to $250,000 effective Oct. 6. $100,000 of the increase was made by a stock dividend and $50,000 by the sale of new stock.

* * *

Announcement was made on Oct. 15 by J. R. Parten, Chairman of the Board of the **Federal Reserve Bank of Dallas,** of the election of Mr. George G. Matkin as a member of the Federal Advisory Council to represent the Eleventh Federal Reserve District during the calendar year 1954. He will succeed Mr. DeWitt Ray, President, National City Bank of Dallas, Dallas, Texas, who will retire at the expiration of his term of office on Dec. 31, 1953, after having served three successive one-year terms. The Council is comprised of one representative from each of the 12 Federal Reserve districts, and its function is to advise with the Board of Governors of the Federal Reserve System in Washington on monetary and credit policies. It usually holds four meetings each year in Washington, D. C.

* * *

The National Bank of Commerce of Seattle, Washington, on Oct. 7, increased its common capital stock from $4,000,000 to $6,000,000 by a stock dividend.

Bankers Offer Stock of New Jersey Utility

Representing the third offering of its common stock within 18 months, public offering of 800,000 shares of Public Service Electric & Gas Co. common stock was made yesterday (Oct. 21) by a group of 89 investment firms headed jointly by Morgan Stanley & Co.; Drexel & Co. and Glore, Forgan & Co. The stock is priced at $25.75 per share.

Proceeds from the sale of this additional common stock and from the scheduled public sale next week of $30,000,000 mortgage bonds will be used by the company to pay before maturity $30,000,000 of bank loans due June 15, 1954 and to pay a portion of the cost of its construction program.

As of June 30, 1953, the company's construction program amounted to approximately $91,084,000 of which $31,631,000 is applicable to its electric department and $29,453,000 to the gas division. The company estimates that between $40,000,000 and $45,000,000 has been or will be expended during the last six months of 1953. The major portion of the balance will be spent during 1954.

Of these amounts $23,300,000 are applicable to one turbine-generator of 145,000 kilowatt capacity being installed at Kearny Generating Station and one turbine-generator of 185,000 kilowatt capacity being installed at Burlington Generating Station and $22,130,000 to expansion of the gas distribution system.

Public Service, an operating electric and gas utility, serves the most densely populated and heavily industrialized areas in New Jersey, including most of the state's larger cities. Population of the territory served with electricity or gas, or both, is over 3,900,000. Through a subsidiary the company also operates local and interstate bus transportation systems.

For the 12 months ended June 30, 1953, operating revenues of the company alone wer $223,107,543 and net income was $25,438,595, equal after dividends on the preferred and dividend preference common stocks to $2.13 per share on the average number of common shares outstanding during the period.

Dividends on the common stock are currently being paid at the rate of 40 cents a share quarterly.

With Inv. Service

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo.—John D. Mark is now with Investment Service Corporation, 444 Sherman Street.

Continued from page 13

Marketing Soundness As a Basis for Bank Loans

What methods has it used? Have these methods been successful- Take room air conditioners as a case in point. We pioneered in this field and recognized a number of years ago that we had to achieve year-round production. Therefore, we developed merchandising ideas to sell room air conditioners in the winter as well as in the summer months. By using those methods, we have now reached a point where we can produce air conditioners on a year-round basis, just as we do refrigerators, electric ranges and other items.

Some companies are good merchandisers but poor manufacturers—or poor at research—or make a poor quality product. Others might be excellent in the field of manufacturing and engineering, but very poor in marketing strategy. For the future loan prospect, I would want to be sure that he had a good product, a good manufacturing set-up, and good engineering, of course. But, I'd spend most of my investigatory time in checking his marketing organization.

Let's look in some detail at some of the other facets which make up marketing.

Distribution

In the consumer goods business, you can have the finest manufacturing plant in the country, top engineering, management and financial brains, but, without distribution for your product, you are lost.

I well remember, immediately following the war, several of my friends with excess manufacturing facilities came out with great ideas in the consumer product field. Their only trouble was that they neglected to work out a program for getting the product off the shipping platform.

There was one chap who had been a successful aircraft frame component supplier. He decided to build trailer bodies and roller skates—among other items. The roller skates were a fine product incorporating good new ideas. But, because of lack of distribution, this product was a dismal failure in the market place.

The distribution system must be adequate with respect to wholesale outlets, retailers, coverage, finance, and quality of these outlets.

In the appliance business, wholesale distributors are vital. They must be loyal, aggressive, well organized and staffed, and have sufficient capital. Good distributors are very difficult to get. You can usually find an excellent man, but the hitch comes when you find he does not have enough capital. The combination of a young, aggressive, capable man and the money, is the problem in finding a good distributor.

Retail outlets must be sufficient in number to cover all key areas; and, depending on the product, may be required in much greater number. Here again, is a problem of quality. Quantity is easy, but to get good dealers is very difficult in a highly competitive industry.

So, as a loan officer investigating Company "X," I would want to know something about the distribution system. How well the territory is covered by wholesalers and retailers? How good are they? How well financed and what is the quality of the wholesalers? Is coverage adequate?

I would want to know what assistance the manufacturer gives his wholesalers in helping them to do a better job of running their business — particularly with respect to operating and financial procedures, merchandising and selling programs, sales training and sales aids for his salesmen, local advertising, how to handle his dealer structure, servicing, and what else he does to help move merchandise off the wholesalers' and dealers' floors.

Market Research

In analyzing Company "X," I would want to know if market research is understood as a management tool and if it is being used.

Market research is absolutely vital in order to do a good product design job and a good selling job.

In any business, you must understand first the characteristics of your market — design, manufacturing, and selling all follow, and depend upon market interpretation. This interpretation must be based on facts with respect to scope, trend, and specific requirements.

Without such information, the company is guessing and it will not guess right a high enough percentage of the time to hold position and make a profit. Much of management today does not understand enough about market research as a management tool.

Let me give you a very simple example. Eighty percent of the U. S. population is in 28 states on the Atlantic, Gulf, Pacific and Great Lakes coasts.

282 counties out of 3,070 in the United States — less than 10% — contain 58% of the population, 70% of the buying power, and 67% of all retail sales.

Think of what an examination of this information means in terms of market coverage, transportation and sales volume to anyone suppling the consumer market.

How can a company do an intelligent job of selling and coverage **without** knowing basic information of this type?

I would want to be sure that Company "X" has **some** means of collecting, interpreting and digesting general market information and specific market information relative to current sales.

It would be useful to know if the company is basing its sales forecasts, sales budgets, warehousing, inventory control, and forward planning on sound market information or on a "fifth sense."

Sales

Sales is an area I would carefully check—first for overall objectives, both long- and short-term, and secondly, as to whether there are methods for constantly determining the current sales position.

What are the sales targets next year and five years hence? Are there weekly and monthly field sales statistics, industry and competitive standing reports? I would be especially interested in learning if the company is generally sales minded, or does top management fail to understand the importance of selling and merchandising? Is this reflected in an overall philosophy which also manifests itself in spirit, teamwork, calibre and responsibility of sales people, and in compensation plans which will not only hold present personnel, but attract others?

It would be well to know if responsibility is actually delegated and if the men are being built for the future. I would use particular caution in checking the organization of a one man, or a closely knit, family operation.

Is there proper divisionalization —not only at the manufacturer's level, but throughout the distribution system as well? If the company is complex and it is not divisionalized by product or product groups, some lines are bound to suffer. Furthermore, people will not be built for future leadership.

I would especially look at key personnel. How good are they? Are compensation plans and deferred income plans adequate to hold them? The problem is to get the **right** men and to **hold** them.

A company can be in great shape today, but if it allows its key people to be lured away, it can be in serious trouble two or three years hence.

Product Development

You can have an excellent sales and distribution organization, but without a good product, they will be smothered by competition. The product development structure must be strong in methods, in people, in imagination, and in merchandising awareness. In my opinion, in a consumer goods business, this group should be as strong as all others. It should have men who have had experience in sales, merchandising, manufacturing, engineering and industrial design. Perhaps individuals, each with all of these facets of experience, cannot be acquired, but several men or more, with this breadth of experience, can be welded together in a team to accomplish the desired result.

To illustrate, let us take a refrigerator. A good quality line of refrigerators in itself is not enough. It must have the features, styling and merchandising characteristics to appeal to the consumer. Companies have lost industry position by staying with the same old line year after year.

Certainly, it costs a great deal of money to change a major product line. Tooling costs have soared to astronomical heights. Engineering and design costs are much greater than they were in 1945. But, if you are going to have the features, styling, capacity and convenience in a refrigerator line to keep ahead of competition and to create obsolescence, then Company "X" must spend the money on these items.

For example, as standards of living go up, food consumption increases, more perishable foods are consumed, frozen food consumption is increasing tremendously, shopping habits are changing, more buying ahead and less frequent visits to the store are a pronounced trend. These economic facts must be translated into product development in terms of larger refrigerators, lower temperature freezer compartments, larger freezer sections, and special food preservation centers in the refrigerator. To do this, money must be spent to collect data on the economy, to interpret it in terms of pre-design specification, to invent new features or products the customer will want, to engineer, design and style these to fight cost out in order to price the product or feature at an acceptable price. A new feature can be terrific or a dismal failure, depending on how it may be priced. It might be excellent at a $10.00 list increment, but very cold indeed at a $30.00 list increment in the price of the product. Additional investment must be made to tool the line, to balance and standardize it, to promote, advertise, merchandise and sell it. Today, annual changes in a refrigerator line on expendable tools alone may cost anywhere from $1 million to $4 million.

If Company "X" doesn't do these things where applicable, it will lose industry position which may be worth millions of dollars of lost sales. I think of two large companies today, one who has done the job properly, and the other who hasn't, and the financial statements of these companies are sufficient proof of what might happen to jeopardize future earnings.

The Loan Officers' Interest in Marketing

As a loan officer, I would put much more weight on these product and allied marketing functions than I would on past earnings performance. The competitive situation is going to get much more acute as time goes on! The battle for distribution outlets, for volume, for net, will depend in a very large degree upon merchandising strategy, with particular emphasis on the saleability of the product, on advertising, and the sales structure concept.

Of course, as a loan officer, I am going to be concerned with the financial health of Company "X," the efficiency of its plants, soundness and up-to-date methods of operation, merit of product and market potential. But all of these items will be so many impressive displays if the top management depends on the product to sell itself. It won't!

There must be a solid, hard hitting advertising program to do a pre-selling job, to put the company and product in the minds of more consumers, to expand Company "X's" share of the market. Also aggressive pre-selling will help greatly in getting more and better dealers.

The advertising manager of Company "X" should be a key man with wide authority. The top management of the company should be merchandising and sales minded. How many companies have you seen get into serious trouble because the management thinks engineering-wise and not sales-wise? How many times have you seen the attitude on the part of management that here is a high quality product, well engineered, well manufactured, and that is what the customer will buy because "we know what's best for them"?

I have worked with many companies (particularly in the industrial field), where top management felt that sales pretty much take care of themselves and that advertising, merchandising and promotional expenses are not really necessary. These are the companies that eventually get into trouble—or never get out of it.

Furthermore, I would beware of a company satisfied with the status quo. To stand still is to retrogress.

I would surely want to know how Company "X" is merchandising the product for greater distribution and what it is doing for greater and broader customer good will. Does it have some form of public relations, and specific policies in this category?

Thus, I have given you some of my opinions and ideas as to what I, as a loan officer, would look for if I were investigating the marketing structure of Company "X."

In conclusion, I want to repeat: I do feel that marketing activities during the next two decades will, in many cases, be the deciding factor as to whether a business maintains economic health — or, indeed, survives. Therefore, I would use the outline I have suggested to become familiar with marketing practices, and as a series of benchmarks to judge whether the marketing structure and strategy of a business makes it a good risk.

With Interstate Secs.

(Special to The Financial Chronicle)

CHARLOTTE, N. C.—Harold H. Yount has become connected with Interstate Securities Corporation, Commercial Bank Building, members of the Midwest Stock Exchange. He was formerly with E. L. Hardin & Company.

Halsey, Stuart Group Sell Utility Bonds

Halsey, Stuart & Co. Inc. and associates on Oct. 16 offered $10,000,000 of Kansas Gas & Electric Co. first mortgage bonds, 3⅝% series, due Oct. 1, 1983, at 102⅛% and accrued interest, to yield 3.51%. The group won award of the issue at competitive sale on Oct. 14 on a bid of 101.479%.

The bonds will be redeemable at general redemption prices ranging from 105.13% to par, and at special redemption prices for the current sinking or improvement fund, ranging from 102.13% to par, plus accrued interest in each case.

Net proceeds from the sale of the bonds, together with proceeds to be received from the proposed sale of 50,000 shares of new preferred stock, will be used by the company to provide additional electric facilities and for other corporate purposes.

Kansas Gas & Electric Co. is engaged almost exclusively in the electric utility business. Territory served by the company comprises most of the southeastern portion of Kansas and covers an area of about 6,000 square miles. Operating revenues of the company for the 12 months ended July 31, 1953, aggregated $20,816,000 and net income was $3,636,000.

With Fusz-Schmelzle Co.

(Special to The Financial Chronicle)

ST. LOUIS, Mo. — Irving R. Ohlsen has become associated with Fusz-Schmelzle & Co., Boatmen's Bank Building, members of the Midwest Stock Exchange. He was formerly with Mark C. Steinberg & Co.

With Reinholdt & Gardner

(Special to The Financial Chronicle)

ST. LOUIS, Mo. — Edward C. Snyder is now affiliated with Reinholdt & Gardner, 400 Locust Street, members of the New York and Midwest Stock Exchanges.

Joins J. M. Dain Co.

(Special to The Financial Chronicle)

MINNEAPOLIS, Minn. — Earl S. Sanford has joined the staff of J. M. Dain & Company, 110 South Sixth Street, members of the Midwest Stock Exchange.

Harris, Upham Adds

(Special to The Financial Chronicle)

CHARLOTTE, N. C.—Larry H. More has been added to the staff of Harris, Upham & Co., Johnston Building. He was previously with Thomson & McKinnon.

With John B. Joyce

(Special to The Financial Chronicle)

COLUMBUS, Ohio.—Mrs. Ruth R. Ayers has been added to the staff of John B. Joyce & Co., Huntington Bank Building, members of the Midwest Stock Exchange.

With W. R. Olson Co.

(Special to The Financial Chronicle)

FERGUS FALLS, Minn.—Duffy O. Rustad is now with W. R. Olson Company, 112 South Mill Street.

L. W. Chamberlain Adds

(Special to The Financial Chronicle)

RED WING, Minn. — Doris P. MacLeod is now affiliated with L. W. Chamberlain & Co., Inc., 315 East Avenue.

With First Trust Company

(Special to The Financial Chronicle)

LINCOLN, Neb. — Elwood N. Thompson has become connected with The First Trust Company of Lincoln, 10th & O Streets.

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. 25	§94.8	*96.3	95.1	106.9
Equivalent to—					
Steel ingots and castings (net tons)	Oct. 25	§2,137,000	*2,172,000	2,144,000	2,221,000
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output—daily average (bbls. of 42 gallons each)	Oct. 10	6,313,450	6,442,700	6,506,100	6,517,100
Crude runs to stills—daily average (bbls.)	Oct. 10	¶6,941,000	6,893,000	7,216,000	6,854,000
Gasoline output (bbls.)	Oct. 10	24,030,000	24,045,000	24,858,000	23,032,000
Kerosene output (bbls.)	Oct. 10	2,582,000	2,553,000	2,215,000	2,640,000
Distillate fuel oil output (bbls.)	Oct. 10	10,142,000	10,312,000	10,244,000	10,094,000
Residual fuel oil output (bbls.)	Oct. 10	8,460,000	8,249,000	8,816,000	8,188,000
Stocks at refineries, bulk terminals, in transit, in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Oct. 10	142,517,000	*143,111,000	143,487,000	120,910,000
Kerosene (bbls.) at	Oct. 10	47,756,000	37,260,000	36,799,000	35,529,000
Distillate fuel oil (bbls.) at	Oct. 10	129,226,000	127,052,000	125,664,000	120,076,000
Residual fuel oil (bbls.) at	Oct. 10	53,341,000	51,912,000	51,760,000	54,423,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Oct. 10	804,070	812,554	710,554	842,797
Revenue freight received from connections (no. of cars)	Oct. 10	662,801	672,846	595,572	699,310
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Oct. 15	$268,942,000	$170,028,000	$180,821,000	$333,337,000
Private construction	Oct. 15	101,896,000	84,188,000	101,561,000	206,213,000
Public construction	Oct. 15	167,046,000	85,840,000	79,260,000	127,124,000
State and municipal	Oct. 15	127,670,000	71,446,000	58,132,000	56,801,000
Federal	Oct. 15	39,376,000	14,394,000	21,128,000	70,323,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Oct. 10	9,275,000	9,230,000	8,115,000	9,121,000
Pennsylvania anthracite (tons)	Oct. 10	699,000	678,000	480,000	897,000
Beehive coke (tons)	Oct. 10	88,800	*89,300	80,200	81,900
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1947-49 AVERAGE = 100	Oct. 10	120	112	102	126
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Oct. 17	8,264,800	8,307,309	8,394,707	7,681,332
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET, INC.	Oct. 15	169	186	182	139
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Oct. 13	4.634c	4.634c	4.634c	4.376c
Pig iron (per gross ton)	Oct. 13	$56.59	$56.59	$56.59	$55.26
Scrap steel (per gross ton)	Oct. 13	$32.33	$31.33	$37.17	$42.00
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Oct. 14	29.625c	29.650c	29.675c	24.200c
Export refinery at	Oct. 14	28.525c	28.175c	28.675c	35.075c
Straits tin (New York) at	Oct. 14	80.000c	81.500c	82.000c	121.500c
Lead (New York) at	Oct. 14	13.500c	13.500c	14.000c	14.000c
Lead (St. Louis) at	Oct. 14	13.300c	13.300c	13.800c	13.800c
Zinc (East St. Louis) at	Oct. 14	10.000c	10.000c	10.000c	13.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Oct. 20	95.11	95.08	93.61	96.50
Average corporate	Oct. 20	105.17	104.83	103.30	108.88
Aaa	Oct. 20	110.52	109.79	107.44	112.75
Aa	Oct. 20	107.17	106.74	105.00	111.44
A	Oct. 20	104.83	104.31	102.96	108.52
Baa	Oct. 20	98.88	98.88	97.94	103.47
Railroad Group	Oct. 20	103.30	102.96	101.47	106.04
Public Utilities Group	Oct. 20	105.17	104.66	102.46	108.88
Industrials Group	Oct. 20	107.27	106.92	105.69	112.00
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Oct. 20	2.84	2.84	2.95	2.75
Average corporate	Oct. 20	3.44	3.46	3.55	3.23
Aaa	Oct. 20	3.14	3.18	3.31	3.02
Aa	Oct. 20	3.32	3.35	3.45	3.09
A	Oct. 20	3.46	3.49	3.57	3.25
Baa	Oct. 20	3.82	3.82	3.88	3.54
Railroad Group	Oct. 20	3.55	3.57	3.66	3.39
Public Utilities Group	Oct. 20	3.44	3.47	3.60	3.23
Industrials Group	Oct. 20	3.32	3.34	3.41	3.06
MOODY'S COMMODITY INDEX	Oct. 20	392.9	393.8	412.4	416.8
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Oct. 10	231,884	371,431	199,338	236,587
Production (tons)	Oct. 10	259,457	259,699	201,235	245,680
Percentage of activity	Oct. 10	97	98	76	96
Unfilled orders (tons) at end of period	Oct. 10	560,609	590,808	552,959	544,741
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1949 AVERAGE = 100	Oct. 16	105.99	105.70	105.77	109.28
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	Oct. 3	20,711	21,815	26,563	25,166
Number of shares	Oct. 3	594,442	623,419	735,342	696,284
Dollar value	Oct. 3	$25,018,112	$25,418,527	$31,196,337	$32,638,271
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Oct. 3	17,730	18,578	20,429	20,720
Customers' short sales	Oct. 3	216	288	349	141
Customers' other sales	Oct. 3	17,514	18,290	20,080	20,579
Number of shares—Total sales	Oct. 3	503,649	534,203	618,581	581,641
Customers' short sales	Oct. 3	8,575	10,686	12,205	4,798
Customers' other sales	Oct. 3	495,074	523,517	606,376	576,843
Dollar value	Oct. 3	$19,096,128	$20,078,962	$23,640,404	$23,886,623
Round-lot sales by dealers—					
Number of shares—Total sales	Oct. 3	140,320	146,830	187,200	176,730
Short sales	Oct. 3	------	------	------	------
Other sales	Oct. 3	140,320	146,830	187,200	176,730
Round-lot purchases by dealers—					
Number of shares	Oct. 3	236,430	273,210	288,950	269,520
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. 26	352,450	510,080	254,110	169,660
Other sales	Sept. 26	5,550,840	9,417,650	6,208,960	5,964,260
Total sales	Sept. 26	5,903,290	9,927,730	6,463,070	6,133,920
ROUND-LOT TRANSACTIONS FOR ACCOUNT OF MEMBERS, EXCEPT ODD-LOT DEALERS AND SPECIALISTS:					
Transactions of specialists in stocks in which registered—					
Total purchases	Sept. 26	632,950	1,043,980	648,690	496,770
Short sales	Sept. 26	125,260	171,850	84,870	94,130
Other sales	Sept. 26	505,930	908,790	583,200	433,220
Total sales	Sept. 26	631,190	1,080,640	668,070	527,350
Other transactions initiated on the floor—					
Total purchases	Sept. 26	210,340	228,300	121,890	91,000
Short sales	Sept. 26	21,700	37,600	12,100	4,800
Other sales	Sept. 26	173,200	236,100	141,480	110,490
Total sales	Sept. 26	194,900	273,700	153,580	115,290
Other transactions initiated off the floor—					
Total purchases	Sept. 26	218,630	352,320	222,050	172,590
Short sales	Sept. 26	44,150	57,290	40,950	19,780
Other sales	Sept. 26	180,855	278,294	230,783	251,825
Total sales	Sept. 26	225,005	335,584	271,733	271,605
Total round-lot transactions for account of members—					
Total purchases	Sept. 26	1,061,920	1,624,600	992,630	760,360
Short sales	Sept. 26	191,110	266,740	137,920	118,710
Other sales	Sept. 26	859,985	1,423,184	955,463	795,535
Total sales	Sept. 26	1,051,095	1,689,924	1,093,383	914,245
WHOLESALE PRICES, NEW SERIES — U. S. DEPT. OF LABOR — (1947-49 = 100):					
Commodity Group—					
All commodities	Oct. 13	110.1	*110.3	110.8	110.7
Farm products	Oct. 13	95.3	96.1	97.8	104.6
Processed foods	Oct. 13	104.0	104.2	105.6	108.1
Meats	Oct. 13	87.0	*88.9	94.7	107.3
All commodities other than farm and foods	Oct. 13	114.6	*114.6	114.6	112.6

*Revised figure. ¶Includes 683,000 barrels of foreign crude runs. §Based on new annual capacity of 117,547,470 tons as of Jan. 1, 1953 as against the Jan. 1, 1952 basis of 108,587,670 tons.

	Latest Month	Previous Month	Year Ago
AMERICAN GAS ASSOCIATION—For Month of August:			
Total gas (M therms)	3,487,202	3,505,917	3,389,000
Natural gas sales (M therms)	3,315,116	3,320,467	3,222,800
Manufactured gas sales (M therms)	50,950	55,109	61,400
Mixed gas sales (M therms)	121,136	130,341	104,800
AMERICAN IRON AND STEEL INSTITUTE:			
Steel ingots and steel for castings produced (net tons)—Month of September	8,913,000	*9,405,580	9,063,287
Shipments of steel products, including alloy and stainless (net tons)—Month of August	6,498,605	6,582,513	6,312,118
AMERICAN ZINC INSTITUTE, INC.—Month of September:			
Slab zinc smelter output, all grades (tons of 2,000 pounds)	81,144	83,241	76,019
Shipments (tons of 2,000 pounds)	57,547	69,250	78,129
Stocks at end of period (tons)	141,494	117,897	94,541
Unfilled orders at end of period (tons)	27,323	32,988	42,791
COAL EXPORTS (BUREAU OF MINES)—Month of July:			
U. S. exports of Pennsylvania anthracite (net tons)	220,099	323,425	233,122
To North and Central America (net tons)	220,099	312,393	210,583
To South America (net tons)	------	------	------
To Europe (net tons)	------	11,032	22,539
To Asia (net tons)	------	------	------
COAL OUTPUT (BUREAU OF MINES)—Month of September:			
Bituminous coal and lignite (net tons)	41,095,000	40,275,000	*46,885,000
Pennsylvania anthracite (net tons)	2,546,000	*2,378,000	3,761,000
Beehive coke (net tons)	372,000	*416,900	354,900
COKE (BUREAU OF MINES)—Month of Aug.:			
Production (net tons)	6,763,491	*6,750,381	6,028,800
Oven coke (net tons)	6,346,622	6,340,286	5,808,300
Beehive coke (net tons)	416,869	*410,095	220,500
Oven coke stocks at end of month (net tons)	2,391,211	2,220,692	3,141,659
CROP PRODUCTION — CROP REPORTING BOARD U. S. DEPT. OF AGRICULTURE—As of October (in thousands):			
Corn, all (bushels)	3,196,101	3,216,007	3,306,735
Wheat, all (bushels)	1,163,231	1,169,307	1,291,447
Winter (bushels)	878,331	878,331	1,052,801
All spring (bushels)	284,900	290,976	238,646
Durum (bushels)	13,424	14,314	21,363
Other spring (bushels)	271,476	276,662	217,283
Oats (bushels)	1,205,106	1,205,500	1,268,280
Barley (bushels)	237,476	236,989	227,008
Rye (bushels)	17,452	17,452	15,910
Flaxseed (bushels)	39,011	39,011	31,002
Rice (100-lb. bag)	51,328	50,417	48,660
Sorghum grain (bushels)	114,590	120,215	83,316
Cotton (bales)	15,596	15,159	15,136
Hay, all (tons)	105,563	104,440	104,424
Hay, wild (tons)	12,477	12,477	10,935
Hay, alfalfa (tons)	43,462	42,471	42,438
Hay, clover and timothy (tons)	30,299	30,299	31,755
Hay, lespedeza (tons)	4,911	5,040	5,147
Beans, dry edible (100-lb. bag)	17,730	17,291	16,777
Peas, dry field (100-lb. bag)	3,347	3,347	2,610
Soybeans for beans (bushels)	259,483	279,725	291,682
Peanuts (pounds)	1,393,995	1,411,720	1,354,010
Potatoes (bushels)	373,939	380,926	347,504
Sweetpotatoes (bushels)	33,709	34,301	28,292
Tobacco (pounds)	2,032,557	2,034,697	2,254,855
Sugarcane for sugar and seed (tons)	7,525	7,525	7,599
Sugar beets (tons)	11,496	11,381	10,169
Broomcorn (tons)	------	30	29
Hops (pounds)	41,752	43,365	61,263
Apples, commercial crop (bushels)	99,611	97,262	92,489
Peaches (bushels)	63,429	63,894	62,560
Pears (bushels)	30,374	28,901	30,947
Grapes (tons)	2,773	2,770	3,173
Cherries (12 States) (tons)	230	230	218
Apricots (3 States) (tons)	214	214	177
Cranberries (5 States) (barrels)	1,075	1,162	790
Pecans (pounds)	185,132	181,136	147,946
COMMERCIAL PAPER OUTSTANDING—FEDERAL RESERVE BANK OF NEW YORK—As of Sept. 30 (000's omitted)	$475,000	$451,000	$565,000
COTTON GINNING (DEPT. OF COMMERCE)—As of Oct. 1	5,546,987	------	5,458,046
FREIGHT CAR OUTPUT—DOMESTIC (AMERICAN RAILWAY CAR INSTITUTE)—Month of September:			
Deliveries (number of cars)	5,706	5,557	3,762
Backlog of orders at end of month (number of cars)	42,198	45,735	95,377
HOUSEHOLD WASHERS AND IRONERS — STANDARD SIZE — (AMERICAN HOME LAUNDRY MANUFACTURERS' ASSOCIATION)—Month of August:			
Factory sales of washers (units)	291,260	228,268	254,537
Factory sales of ironers (units)	8,067	9,626	16,477
Factory sales of dryers (units)	70,774	33,296	53,376
MANUFACTURERS' INVENTORIES & SALES (DEPT. OF COMMERCE) NEW SERIES—Month of July (millions of dollars):			
Inventories:			
Durables	$25,925	*$25,775	$22,962
Nondurables	19,745	*19,750	19,786
Total	$45,670	*$45,525	$42,748
Sales	26,721	*26,172	21,858
MOTOR VEHICLE FACTORY SALES FROM PLANTS IN U. S.—AUTOMOBILE MANUFACTURERS' ASSN.—Month of August:			
Total number of vehicles	615,386	*705,132	270,982
Number of passenger cars	513,457	*599,134	218,577
Number of motor trucks	101,478	105,622	52,056
Number of motor coaches	451	376	349
NEW CAPITAL ISSUES IN GREAT BRITAIN—MIDLAND BANK, LTD.—Month of Sept.	£8,011,000	£86,099,000	£15,429,000
NON-FARM REAL ESTATE FORECLOSURES—FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION—Month of June	1,793	1,769	1,669
PORTLAND CEMENT (BUREAU OF MINES)—Month of August:			
Production (barrels)	24,289,000	24,134,000	23,573,000
Shipments from mills (barrels)	27,092,000	26,480,000	25,915,000
Stocks (at end of month—barrels)	16,401,000	19,196,000	12,819,000
Capacity used	101%	100%	99%
RAILROAD EARNINGS—CLASS I ROADS (ASSOCIATION OF AMERICAN RRs.)—Month of August:			
Total operating revenues	$924,753,910	$925,949,189	$899,733,630
Total operating expenses	689,467,155	701,399,387	633,359,720
Operating ratio	74.56	75.75	73.73
Taxes	$112,211,991	$107,538,765	$113,492,148
Net railway operating income before charges	101,635,605	94,427,908	105,227,433
Net income after charges (estimated)	82,000,000	71,000,000	81,000,000

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Monetary Policy, Business And the Banks

plus Treasury borrowings and bond offerings by state and local governments. The aim has been to let interest rates find their own level in the market in response to the forces of demand, without active intervention by the Federal to prevent them from rising. In sum, for the two-year period as a whole, the Federal in effect sat on its hands and refrained from making credit easier. During the first four months of 1953 the policy became somewhat more restricted, as the Federal allowed its holdings of governments to run off at a time when bank reserves were being pulled down by an outflow of gold. Since early May it has become easier, as the Federal pumped reserves into the money market in order to prevent credit from tightening further.

The second misunderstanding relates to the proper function of a central bank in a period of boom. Many seem to think that the Federal's policy should be to provide unlimited credit elasticity, by providing the banks with all the reserves they need to meet mounting credit demands at prevailing interest rates. Such a policy would amount to abrogation by the Federal of its responsibility for regulating credit and the money supply in the interest of economic stability. If the monetary authorities do not allow credit to tighten during a boom, they run the risk of permitting unsound credit conditions to develop and of overstimulating the economy to the breaking point. Stresses and strains and disproportions are created that invite a serious reaction later on. Moreover, if recession were to come, it would take us longer to dig ourselves out of the hole. If individuals and firms have gone too heavily into debt, if excessive inventories have been accumulated with borrowed funds, if market demands for houses and consumer durables have been temporarily saturated as a result of heavy buying "on time"—we may find it difficult, if not impossible, to check the forces of deflation and to induce recovery by orthodox means.

Thus it is important for the monetary authorities to apply the brakes promptly before credit expansion goes too far. Here, as elsewhere, an ounce of prevention is literally worth a pound of cure.

I do not mean to imply that monetary measures can prevent a downturn. No boom has lasted indefinitely. In a sense, every boom contains within itself the seeds of its own destruction. The point is that by avoiding overstimulation of the economy through excessive credit expansion, we at least stand a chance of sustaining prosperity for a longer time and of mitigating the severity of the blow if it finally comes. By permitting excessive credit expansion we inevitably substract something from the future and run the risk of eliminating the basis for an early and vigorous upswing if a recession develops.

Third, there has been misunderstanding about the effect of higher interest rates on bank earnings. The impression seems to be widespread that rising rates have been an unmixed blessing for banks. Nothing could be further from the truth. While higher rates provide some increase in gross earnings — before taxes — they also have disadvantages. Some banks lose deposits as corporations take out their money and put it into Treasury bills and other investments. Rising rates place restraint on expansion of loans, to the extent that they deter people from borrowing. They also result in substantial shrinkage in the market values of bond and mortgage holdings. A recent study by the Research Council of the American Bankers Association indicates that the 7,000 banks covered by the Treasury Survey of Ownership suffered nearly $1.5 billion of depreciation on their holdings of government bonds during the period from the 1951 accord down to June 1 of this year.

The depreciation, while substantial, has not been serious for most banks. It has been concentrated mainly on the longer-term issues. As of May, only 5% of the government obligations held by the 7,000 banks was due or callable within more than 10 years. More than half of such holdings —51% — consisted of obligations maturing within one year; 29% was due or callable within one to five years; 14%, within 5 to 10 years.

Nevertheless the decline in market prices has given rise to developments that tend to restrict the growth of bank earnings. For one thing, many banks have become increasingly concerned about their capital positions. This has made them more cautious and conservative in making loans. Credit risks have been screened more carefully. As a result, banks have tended to pass up more lucrative lending opportunities in favor of others that are considered safer.

Moreover, many banks have been constrained to shorten maturities in their investment portfolios. Greater concentration on short-term obligations reduces earnings but minimizes the risk of asset depreciation in a period of rising rates. It is also a means of strengthening the bank's liquidity position. A secondary reserve that formerly seemed adequate may no longer seem so when a bank would have to take losses if it were forced to sell governments in order to raise cash. A bank that is concerned about liquidity may thus not be in a position to profit from higher interest rates.

Fourth, the impression has prevailed that interest rates are high. Actually, they are low in comparison with those which have prevailed in past periods of prosperity. Lending rates of banks in principal cities averaged only 3.73% in the second quarter of 1953, as compared with better than 5½% for the 'twenties. Yields on triple A corporate bonds (Moody's) average 3.31% now, as compared with a range of 4.46% to 4.80% in 1928-29 and 5.75 to 6.38% in 1920.

II
Fiscal Policy

I think it is worth pointing out that since the end of the war Federal fiscal policy has not been the most important contributing factor making for inflation. It is the expansion of private and state and local debt that has powered the boom.

The net effect of Treasury fiscal operations has been, on the whole, counter-inflationary. The government had a cash surplus in all but two of the seven postwar years. The total net surplus for the seven years was nearly $17 billion.

In contrast, net private debt (corporate and personal) has risen from $140 billion at the end of 1945 to over $302 billion at the end of 1952, and may reach $325 billion at the end of 1953. State and local debt rose from around $13 billion to nearly $26 billion during 1946-1952. The increase in net private and public debt (exclusive of Federal debt) during 1952 came to $26 billion. To the extent that this borrowing involved the use of commercial bank credit, it contributed to the inflation.

The cash deficit of over $5 billion in fiscal 1953 was, of course, one of the factors tending to increase the money supply and contributing to pressure on interest rates during the past year. Moreover, to the extent that the Treasury finds it necessary to rely on the commercial banks to finance its cash requirements, the burden devolves upon the Federal Reserve of providing the banks with the necessary reserves to enable them to buy government obligations. Such purchases by the commercial banks tend to increase deposits, thus adding to the money supply. This serves to underscore the fact that really effective and flexible monetary management is at best extremely difficult so long as the government is running a large cash deficit.

In the current fiscal year the Treasury hopes to hold the deficit in the regular budget to below $4 billion and to reduce the cash deficit to around $500 million. Even if the cash budget were balanced for the fiscal year as a whole, however, the government would have a large deficit in the last six months of the calendar year, due mainly to the fact that corporate income tax payments are heavily concentrated in the spring. In the last six months of 1953 the cash deficit will be very substantial. The Treasury sold about $6 billion of tax anticipation certificates in July to cover its cash needs through the September quarter. Additional borrowing will be necessary this fall, and commercial banks will be expected to absorb additional quantities of government obligations. Next spring the government will run a surplus, and some of the borrowings can be paid off.

The seasonal revenue pattern creates serious complications for both the Treasury and the Federal Reserve. The reduction of of legal reserve requirements in early July of this year was largely motivated by the necessity of providing the banks with funds with which to finance the Treasury's needs for the last half of 1953.

If recession should come, the Treasury may be expected to operate in the red. With roughly 80% of Federal revenues derived from individual and corporate income taxes, it requires little imagination to predict what will happen if the national income should drop. Unless the government increases taxes and cuts expenditures sharply — both extremely improbable — the Treasury will run substantial deficits, and the banks will be expected to help finance them. Commercial banks are thus inexorably bound up with fiscal policy and problems. Of course, the larger holdings of governments would help to offset a possible reduction of bank earnings due to lower interest rates and declining loans.

III
Debt Management Policy

The present Administration made it known, when it took office, that it intended to reconstruct the Federal debt structure. The principal objective is to lengthen out the debt. Too much of the debt—about $83 billion—falls due within a year; too much within two years, or three, and so on. It would be desirable to refund maturing obligations in such a way as to lengthen out the average maturity of the debt, in order to relieve the Treasury of the pressure of constantly recurring maturities and increase its flexiblity to deal with any future emergency.

The Treasury made a small start in February in connection with the refunding of $9 billion of certificates. It gave the holders the option of taking either a new one-year certificate or a five-year ten-month bond. Only $600 million of the bonds found takers. In April, the Treasury offered $1 billion of 30-year 3¼% bonds for new money. The offering hit the market at a time when demand pressures were extremely heavy, and the issue immediately slumped below par. Thereafter, the Treasury limited its offerings to short-term issues. In September, when $8 billion of 2½% bonds matured, the holders were given a choice of taking either a one-year 2⅝% certificate or a 3½-year note carrying 2⅞%. About $3 billion of the notes were taken. The success of the note offering appears to be an indication that investors are now willing to extend their sights beyond the shortest-range obligations, and may indicate a growing degree of confidence in the longer-term credit instruments.

The Treasury may be expected to proceed cautiously to avoid forcible feeding of the long-term market. Large offerings of long-term securities tend to force up bond yields and unsettle the capital market, adversely affecting corporate expansion programs. Deferral of some capital investment programs, due to higher interest rates, would help to hold down inflationary pressures. The latest Commerce Department-SEC survey of capital goods demand indicates, however, that the major industry groups are already anticipating either a leveling off or a decline in their rates of capital spending in the fourth quarter of this year. Under these circumstances, heavy long-term financing by the Treasury would seem to be ill-advised.

Aside from the effects on the capital market, there would be little point in saddling the government with a large volume of long-term debt incurred at today's interest rates. When private demands subside, the Treasury will have an opportunity to sell long-terms on a more favorable basis.

Moreover, under existing conditions with the Treasury running a deficit, it is hard to see how it can make much headway with the problem of lengthening out the debt. With short-term borrowing on the rise, the short-term debt tends to rise at a pace faster than the ability of the Treasury to lengthen its maturities. The best the Treasury will be able to do is to prevent further deterioration of the debt structure.

Should loans decline and short-term interest rates drop, many banks will lengthen their investment portfolios in the attempt to improve earnings. Intermediate-term obligations will become more attractive to banks. This would facilitate the funding of some of the floating debt into longer maturities.

As to how much progress can be made in "getting the government debt out of the banks," it would be difficult to say. Short-term governments are the mainstay of bank secondary reserves. Other financial institutions also prefer to maintain substantial holdings of short-term obligations. Careful study would be needed of the liquidity requirements of banks and other investors before an attempt is made to bring about a substantial reduction in the volume of "floating" debt or to retire bank-held short-term debt from the proceeds of longer-term obligations sold to other types of investors.

The time to have embarked on a program of lengthening out the debt was in the earlier postwar years. Having missed the boat at that time, the government now finds itself in a situation where little progress can be made without risking an upset of the capital market and disturbing the rather precarious balance of the economy.

Should a downturn in business develop, other obstacles will appear. Reduction of the floating debt may then be difficult because of the necessity of financing current deficits. Moreover, even if the Treasury were in a position to embark on a debt-lengthening program, it would have to give consideration to the effect of such an undertaking on the general economy. For one thing, refunding of short-term obligations held by commercial banks would tend to reduce deposits. It has also been argued that offering sizable quantities of long-term obligations to non-bank investors would carry the disadvantage of providing a convenient haven for idle funds that might otherwise seek employment in the private enterprise, thus tending to sustain long-term interest rates and delay business recovery. The weight to be given to these considerations is difficult to assess.

IV
The General Business Situation

My last topic has to do with prospective changes in the level of business activity and the probable effects on the banks.

Business today appears to be in a state of uneasy balance. One set of factors suggests the persistence of inflationary strain. Another suggests a tapering-off of the boom. Certainly the possibility of a conjuncture of deflationary developments—such as a decline in government spending, lower expenditures for consumer durables, a drop in residential construction and plant and equipment outlays, and an end of inventory accumulation, occurring at the same time—is one to be reckoned with.

It seems likely that if a "readjustment" develops, it will be a moderate one, and that we will be able to avoid a widespread collapse of employment and demand. There are props under the economy today that we did not have in the early 1930's, and the government may be expected to take prompt action to arrest a deflationary trend. Easier money will help, though there is danger in over-rating the effectiveness of monetary policy in halting a business decline.

Certainly the commercial banking system is in a better position to weather a recession than it was two decades ago. Its liquidity position, in general, is far better than in 1929. Assets, on the whole, are of high quality. Government obligations constituted over 41% of total loans and investments of all commercial banks at the end of June, as compared with 10% in June of 1929, and these are free of credit risk. A large proportion of loans is insured or guaranteed by the government. F. D. I. C. insurance affords protection against runs. The Federal Reserve System has been strengthened and improved. Its power to grant advances has been broadened to permit loans to banks against any sound asset. The Board of Governors can lower reserve requirements of member banks. The Federal Reserve is thus in a far better position than it was in the early 1930's to give assistance to banks requiring reserves to meet currency demands or drains on reserves resulting from credit contraction by other banks. A liquidity panic such as was experienced 20 years ago, involving wholesale credit and security liquidation, forced selling of inventories, and bank failures, is hardly conceivable.

Nevertheless, a recession of even modest proportions would present a challenge to bankers. Then will be the time for bankers to "keep their heads." Ill-considered pressure on customers to "pay up" can only exacerbate the forces of deflation and undermine the asset values on which the soundness of bank assets and the security of the whole financial structure rests. Bankers recognize this, and, given adequate help from the Federal Reserve, there is every reason to expect that they will face up to their public responsibilities as custodians and operators of the nation's credit and monetary machinery.

A recession would confront banks with a problem of trying to maintain earnings. A substantial decline in bank loans could be expected. Business loans would inevitably drop off as inventories are pared and prices and output decline. A decline in consumer credit would carry with it a good slice of business loans. Real estate loans would decline if building drops off. The rising tide of amortization payments will confront banks with a serious problem of finding lending and investment outlets for their funds.

Moreover, a decline in interest rates would be in prospect with any general softening of business. Part of the rise in recent years is unquestionably a temporary phenomenon, arising from the abnormal credit demands of the postwar period. Any slackening off of business will be countered by aggressive Federal Reserve action to make credit more easily available and less costly to borrowers. Competition for loans and investments will be intensified.

Finally, prospective loan losses are a factor to be reckoned with. While charge-offs of the magnitude experienced in the early 1930's are not to be expected, it will be well to remember that there has been no real test of banking assets for two decades and that any substantial jolt to the economy is bound to reveal some weak spots.

At the same time, operating costs are likely to remain high, and may even continue to increase. Service charges probably cannot be increased substantially to make up for loss of earnings on loan and investment portfolios.

One way to increase earnings would be to lengthen out maturities, and many banks will be in a position to do this. Liberalization of terms on FHA and VA mortgages may help to sustain the demand for mortgage loans. Government deficits — probably unavoidable if a recession comes —would result in growth of bank holdings of governments. Some reduction of corporate and surtax rates might be expected as a counter-recession measure, although it is not likely to be substantial.

Some concern has been expressed about the adequacy of bank capital to withstand a period of stringency. Total capital accounts of all commercial banks at the end of June were $13.2 billion, equal to 8% of total deposit liabilities and 16.6% of total loans and investments exclusive of U. S. Government obligations. Of course, the aggregates conceal wide variations in the capital position of individual banks, as well as variations among geographical areas.

In evaluating the capital strength of banks, certain things ought to be kept in mind. One is that prospective losses on loans and investments in a period of declining business are likely to be smaller if a bank possesses sufficient liquidity so that it can avoid "dumping" securities and ride along with its customers instead of attempting to force payment. The presence of a substantial volume of short-term governments in bank portfolios affords a liquid secondary reserve which could prove useful in alleviating conditions which would put a strain on bank capital. While this factor cannot be evaluated with any degree of precision insofar as its effect on the capital needs of banks is concerned, it is undoubtedly of considerable importance and is frequently overlooked in discussions of the problem by bankers and supervisory authorities.

Other factors that have a bearing on capital strength today, as compared with past periods, are (1) improved management, (2) deposit insurance, which will help to prevent losses attendant to bank runs, (3) government insurance or guarantees of mortgages and commodity loans, and (4) the likelihood of governmental action to arrest deflation and prevent a cumulative shrinkage of values. These factors cast serious doubt on the validity of comparisons with past periods based on the use of such rule-of-thumb tests as ratios of capital to deposits or capital to risk assets.

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The Odd-Lot System on the New York Stock Exchange

That execution takes place on the next round-lot sale at the same price as that on the round lot, plus or minus the differential.

The differential now is one-eighth on stock selling below $40 a share, and it is one-quarter on stock selling at $40 and above. The round-lot sale has now taken place. Our broker has his hand pad which is called a report pad. You may have seen it. Have you been on the floor yet? You may have seen one. He simply writes on that the name of your broker, Jones and Company. DeCoppet & Doremus sold 50 shares of General Motors at 60 or whatever the price was. He drops it in a cup at the post, and there again the Stock Exchange employee picks it up and it simply retraces its steps, the steps the order took coming in, goes back to the telephone clerk on the floor, who telephones it up to his New York office. The New York office puts it on the wire to Chicago. It may have all been completed in a matter of two or three minutes.

There are presently two odd-lot dealer firms. Well, as a matter of fact, there are a couple of others who do odd-lots in a few stocks in which they specialize on the floor. That is a minute part of the total odd-lot business. We have on the floor of the Stock Exchange 44 brokers. We call them associate brokers. Each one is a member of the New York Stock Exchange, owns his own seat. They are not partners in our firm. They work for us solely; they are not allowed to do anything else. They are paid a fixed commission. It is 2¼ cents on stocks over $10, and 2⅛ on stocks under $10. They have no liability; they have no share in the profits of the firm, and therefore they have no reason to do other than execute the order at the proper price. They gain nothing if they try to chisel a quarter. They get their fixed commission.

We divide the floor up into four or five sections, each section under the supervision of a partner in the firm who is a member of the Stock Exchange. The partners circulate around and keep track of our positions. They have authority to sell them out if they see fit.

How Odd-Lot Business Is Run

I suppose that the all-important and intriguing part of this thing, at least, in my experience in the past—everybody wants to know how in the devil do you run your business? You are buying and selling all the time. Frankly, It's a mystery to us, too. However, we do trade in every stock on the big board with the exception of a few. Being principals, we are bound to have a position, either long or short, in every one of those stocks. To keep some control over it, we assign to each stock what we call a "basis." The basis may be zero, and that would apply in the case of an extremely inactive stock. That means that our broker is directed to stay just as close to zero in his position as is humanly possible. We may have other stocks that will have a basis of 100, 200, 500, and so on.

Our positions are determined by the action of the odd-lot market. In other words, if we are long 1,000 shares of General Motors, it is because the public has been selling General Motors in odd-lots and we have bought. We would never go out and arbitrarily buy 1,000 of Motors because we think it is good stuff. We don't need an odd-lot firm with 400 clerks to do that. You can set up your office by yourself to do that if you are smart enough. Besides, the whole odd-lot system was cleared in the early days of the S.E.C., when we had an independent study made of the odd-lot system submitted to the S.E.C., and got their approval. We have never had any trouble since.

We were simply told that if we ever abused our position by trading arbitrarily, and possibly upsetting the market, we would be called up on the carpet. I point that out as a sideline. We don't do it.

To get back to the basis. Let's say that Motors has a basis of 500 shares. If the action of the odd-lot orders makes our broker long 550 shares, or short 550 shares, he must do one of two things; either trade in the round-lot market to bring his position within the 500 shares, or he must call one of the floor partners and say, "I am over my basis. I would like to let it run a little while."

Or, if he were short, he might say, "I would like to postpone covering that for the time being," his opinion being based on his knowledge gained from standing right there, watching General Motors day after day.

The partner has the authority to say, "All right, let it go." Or, he will say, "Sell it out," or "Cover it."

We have up in the office what we call a control room, which has a modest electric board with about 400 stocks that are the market leaders. It is enough for anyone going in to get a quick picture of what the market is doing. We have four men who sit there all during the trading session. They have a tape in back of them, and flash down to the floor immediately any pertinent news about dividends or split-ups, which might affect the stock. They also receive from each of our brokers every hour a complete story of his position.

In other words, we know every hour exactly what we are doing, whether the public is selling us stock or whether they are taking it away from us. So, that is compiled right there in a matter of minutes, and again telephoned down to the floor partners. They take whatever action they see fit. If they think we are taking on too much stock, they go around and tell the brokers to lighten up. If the public has been taking stock away from us at too fast a rate, and we don't want to be short that much, they go around and tell them to cover it up.

Differential Takes Place of a Commission

One point with which you may be familiar is that the odd-lot dealer gets no commission whatsoever. We have only the quarter or eighth differential, so whether or not we make money depends upon our ability to trade. That differential, I might say, was fixed at one-eighth on all stocks for 20 years. Until two years ago this August it was that. Then it was raised to a quarter on stocks over $40 a share.

Briefly, let me explain our order room and its connection with the floor. As a matter of fact, our order room is nothing at all like the order room that you would see in a commission firm. We have there an electric board that has a thousand stocks on it, and we are in the process of expanding it so that it will carry every stock on the floor. That is on a slight curve, and in the area in front of that board are a series of turrets. They are installed by the telephone company, and they carry direct wires to all the commission firms with whom we are dealing.

The clerks manning these turrets sit right there all day long. There are literally thousands upon thousands of calls that come in from the commission firms with all sorts of sales information. They want to know about the last sale of Steel. Somebody is contemplating entering an order, perhaps; or the last sale of any stock; or they will want the sequence of sales in a stock after 10:30.

Checking the "Range Tables"

That goes on all day long in the trading session. Adjacent to the turrets are several long tables which we call range tables. You will see all that this afternoon. At these tables are seated girls. Roughly speaking, each girl has two odd-lot books which she watches. Passing across in front of her is the ticker tape. Now, as you probably know, the master tape is made from three component parts which feed into it to make the master tape. They run first on one, then the second, then the third, and go back around. We have those three broken down tapes piped into our office. The reason for it is it is much easier to pick out the 60 stocks that the girl is watching from the deleted tape than it is from the entire master tape.

She has in front of her a pad listing all the stocks on the two books that she is watching. She is connected by a direct wire with the two telephone clerks who are on those two books on the floor. As the tape is pulled by the automatic puller past her, it goes under an automatic electric clock whch stamps on the tape every minute, so that you know by looking at the tape the precise minute in which a sale took place in the trading section.

The girl, let's say, is watching the Motors book or Anaconda, or whatever the two books are. She picks off, as the tape goes by, every sale of each stock that she is watching and records it on this form which is in front of her, and notes the minute in which the sale took place.

Timing the Transaction

At the end of the trading session we have a series of records hung up that will show every transaction that took place on the Exchange and the minute in which it took place. Incidentally, we, the two odd-lot houses, are the only sources of that information. The Stock Exchange does not do it. Nobody does it except ourselves.

After the debacle in 1929 when there were countless law suits going on, we were constantly called upon to furnish these records for use in court to try to determine what sales took place. We keep them for seven years.

Now, then, another item in our endeavor to assure the odd-lot customer that he gets the proper execution; that is, that his odd-lot order is tied into the proper round-lot sale—the broker on the book on the floor may get an order to buy an odd-lot in an extremely inactive stock. It may not sell for two or three hours, and then there will be one transaction. It is a very simple thing. Being busy with his other active orders, it is very easy to miss that isolated sale that takes place, so to protect himself against that, as soon as he gets that order on this inactive stock, he calls up to his girl on the range table, and says, "Give me the next sale on X, Y, Z." Now, he can forget about that. He puts the order in the back of his book, and when that sale takes place, it may be three o'clock in the afternoon, the girl telephones down immediately, so that the order is executed. The report goes out.

I would like to be able to say that we never miss any sales, but I can't do it. We do miss them. We try to cut it down to a minimum, and we have succeeded pretty well.

Another function of this order room—as I said a moment ago the customer may be sitting in the board room, and he puts in that order to buy 50 shares of Motors. He sits there and watches the tape. He sees the sale, and he thinks he ought to be getting his report. I tried to point out the many steps through which that order goes before it gets to us, at any one of which a delay might occur. However, the customer calls his account executive or his customer's man over, and he says, when he gets the report: "I don't think this is right."

So the customer's man goes back over the wire and asks the New York office to check the price on this odd-lot order, Number so-and-so.

That request will come into our order room which I have described. It will land in the hands of one of these men sitting at the turret. The order clerk in New York will say: "Check the price on 50 Motors at the market entered at such-and-such a time." We will get out the original order which may still be on the floor of the Stock Exchange, although we collect them every hour and bring them up to the office.

Determining Accuracy of Price

As I told you, that order is time-stamped when it reaches the post. This clerk can determine the time that the order reached the post. He then adds, as I explained, a complete record of all sales in general. From these basic factors he is able to determine, with a great deal of accuracy, whether that price is right or not.

There is a certain element—well, there is a lack of complete exactitude in this thing. You probably have discovered already that the so-called reporters on the floor, employees of the Stock Exchange, stand in various groups, and report the round-lot transactions as they take place. It is the obligation of the seller of a round-lot to see that it gets in the hands of the reporters.

From those slips that go upstairs the ticker tape is made. Here, again, there is a chance for variation there. The reporter may be extremely busy if the stock is active, and he may stand there and collect dozens of these things. He puts them over in the tube to go upstairs and it may be that just at that moment the report on the round-lot in which we are concerned — the moment that gets there, the ticker swings over to another one of the three component tickers. That thing is going to wait until they have gone through No. 2 and No. 3, and come back to No. 1 again.

The poor customer sitting in the brokerage office may think that it took an unconscionable amount of time to get up there. However, as I say, we, by and large, can determine with great accuracy what the proper price of an odd-lot order is.

In the last analysis, if you raise enough hell, you get an adjustment anyway, so we'll fix it up for him and keep peace in the family.

Securities Now in Registration

★ INDICATES ADDITIONS SINCE PREVIOUS ISSUE
● ITEMS REVISED

★ Alton Downtown Parking, Inc., Alton, Ill.
Oct. 12 (letter of notification) 400 shares of common stock. **Price**—At par ($100 per share). **Proceeds**—For organizational expenses, etc. **Offices**—c/o Henry Wuellner, 301 No. Plaza St., Alton, Ill., and c/o Ryrie Milnor, 200 West Third St., Alton, Ill. **Underwriter**—None.

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 Telephone & Telegraph Co. (11/5)
Oct. 14 filed $625,000,000 of 12-year 3¾% convertible debentures, due Dec. 10, 1965, to be offered for subscription by stockholders of record Oct. 30 in the ratio of $100 of debentures for each seven shares of stock held; rights to expire on Dec. 10. Rights will be mailed about Nov. 5. **Price**—$100 for each $100 principal amount. **Proceeds**—For advances to subsidiary and associated companies, etc. **Underwriter**—None.

● American Water Works Co., Inc. (10/28-29)
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. Financing proposal later dropped.

● Anchor Post Products, Inc.
Sept. 30 (letter of notification) 32,953 shares of common stock (par $2) being 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.

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.

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.

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.

NEW ISSUE CALENDAR

October 23 (Friday)
Hartford Electric Light Co.————Common
(Offering to stockholders—no underwriting) 105,500 shares
Wing Oil & Gas Corp.————Common
(Lewis Smithken Co.) $300,000

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
McCarthy (Glenn), Inc.————Common
(B. V. Christie & Co.) $20,000,000
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
New Mexico-San Juan Natural Gas Co.————Common
(Hunter Securities Corp.) $299,200
Niagara Mohawk Power Corp.————Bonds
(Bids 11 a.m. EST) $40,000,000
Strategic Materials Corp.————Common
(Hamlin & Lunt and Allen & Co.) 198,500 shares

November 4 (Wednesday)
Chicago, Burlington & Quincy RR.————Equip. Tr. Ctfs.
(Bids to be invited) $5,400,000

November 9 (Monday)
General Precision Equipment Corp.————Preferred
(The First Boston Corp. and Tucker, Anthony & Co.) $5,408,350
Long Island Lighting Co.————Bonds
(Bids to be invited) $25,000,000

November 12 (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
Iowa Southern Utilities Co.————Common
(May be First Boston Corp.) about 100,000 shares

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

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.

★ Century Acceptance Corp., Kansas City, Mo.
Oct. 16 (letter of notification) 10,000 shares of class A common stock (par $1) and 5,000 shares of class B stock (par $1). **Price**—Of class A, $2.50 per share; of class B, $1.90 per share. **Proceeds**—To Robert F. Brozman, the selling stockholder. **Office**—1334 Oak St., Kansas City, Mo. **Underwriter**—Wahler, White & Co., Kansas City, Mo.

● Cook Electric Co., Chicago, Ill.
Oct. 7 (letter of notification) 10,041 shares of common stock (par $12.50) being offered for subscription to common stockholders on the basis of one new share for each 11 shares held on Oct. 15; rights to expire on Nov. 3. **Price** — $28 per share. **Proceeds**—For working capital. **Underwriters** — Blunt Ellis & Simmons and Swift, Henke & Co., both of Chicago, Ill.

★ Cooperative Trading, Inc., Waukegan, Ill.
Oct. 13 (letter of notification) 7,500 shares of 4% noncumulative common stock. **Price**—At par ($10 per share). **Proceeds**—For working capital. **Office**—711 McAlister St., Waukegan, Ill. **Underwriter**—None.

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.

★ Fleming Co., Inc., Topeka, Kan.
Oct. 14 (letter of notification) 6,666 shares of common stock (par $25). **Price**—At book value of Oct. 3 (which will be between $38 and $35 per share). **Proceeds**—For general corporate purposes. **Office** — 311 East 17th St., Topeka, Kan. **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) amended to 42,858 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 seven 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. **Under**-**riter**—None. **Office**—Oklahoma City, Okla.

★ General Precision Equipment Corp. (11/9)
Oct. 16 filed 108,167 shares of cumulative convertible preferred stock (par $50) to be offered for subscription to common stockholders on the basis of one new share for each six shares held on or about Nov. 6; rights to expire on Nov. 23. **Price**—To be supplied by amendment. **Proceeds**—To repay $3,925,000 bank loans and to increase general corporate funds. **Underwriters**—The First Boston Corp. and Tucker, Anthony & Co., both of New York.

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. Statement has been withdrawn.

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.

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.

★ Hillside Cemetery Co. (Pa.)
Oct. 14 (letter of notification) $100,000 of 6% registered subordinated debentures due Nov. 1, 1973. **Price**—100% of principal amount. **Proceeds**—To repay $75,000 bank loans and for improvements. **Office**—Roslyn, Pa. **Underwriter**—None.

★ Honolulu Oil Co.
Oct. 15 (letter of notification) 450 shares of common stock. **Price**—At market (approxmiately $47 per share). **Proceeds**—To William M. Roth, the selling stockholder. **Underwriter**—Dean Witter & Co., San Francisco, Calif.

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.

★ Insurance Securities, Inc., Oakland, Calif.
Oct. 19 (letter of notification) trust fund certificates as follows: 7,346 units of $1,000 each, single payment plan, series U; 16,795 units of $1,200 each, accumulative plan, series E. Ten-year participating agreements to create such indeterminate amount of investment units as may be necessary to service the agreements. No underwriting is involved.

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). **Pricce**—$1 per share. **Proceeds**—To complete wells. **Office**—504 Gilbert Bldg., Ardmore, Okla. **Underwriter**—Petroluem Finance Corp., Oklahoma City, Okla.

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.

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.
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.

★ Long Island Lighting Co. (11/9)
Oct. 19 filed $25,000,000 first mortgage bonds, series F, due Sept. 1, 1983. **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. **Bids**—To be received on or about Nov. 9.

★ Massachusetts Business Development Corp., Boston, Mass.
Oct. 16 filed 150,000 shares of common stock (par $1). **Price**—$10 per share. **Proceeds**—For loans and working capital. **Business**—To provide a new source of financing which will be available to assist existing businesses and to encourage new industry in Massachusetts. **Underwriter**—None.

● McCarthy (Glenn), Inc. (10/27)
Oct. 5 (amendment) filed 10,000,000 shares of common stock (par 25 cents). **Price**—$2 per share. **Proceeds**—For drilling of exploratory wells in Bolivia, acquisition of leases and for general corporate purposes. **Underwriter**—B. V. Christie & Co., Houston, Texas. **Dealer Relations Representative**—George A. Searight, 115 Broadway, New York 6, N. Y. Telephone BArclay 7-8448.

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.

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.

Nevada Natural Gas Pipe Line Co.
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 Mexico-San Juan Natural Gas Co. (10/28)
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**—To be received up to 11 a.m. (EST) on Oct. 28, at Room 1840, 15 Broad St., New York, N. Y.

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.

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.

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.)

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.

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. (10/27)
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** — To be received up to 11 a.m. (EST) on Oct. 27 at 80 Park Place, Newark, N. J.

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.

● 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. Statement to be withdrawn.

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

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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.

● **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. Offering expected Oct. 28, with rights to expire on or about Nov. 12. **Price**—To be supplied by amendment. **Proceeds**—to repay bank loans and other indebtedness, 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.

★ **Strutwear, Inc., Minneapolis, Minn.**
Oct. 16 (letter of notification) 1,500 shares of 5% preferred stock (par $100) and 25,000 shares of common stock (par $5), of which 15,000 shares are to be offered only to purchasers of preferred stock at rate of 10 shares for each share of preferred bought. The remaining 10,000 shares of common stock are to be offered to employees. **Price**—To public, at par for both issues; to employees, at average cost for common stock (now approximately $3.71½ per share). **Proceeds**—To purchase Clarksdale (Miss.) plant and for working capital. **Office**—1015 South 6th St., Minneapolis, Minn. **Underwriter**—None.

★ **Texo Oil Corp., Ardmore, Okla.**
Oct. 15 (letter of notification) 622,934 shares of common stock (par one cent). **Price**—At market (approximately 45 cents per share). **Proceeds** — To selling stockholder. **Office**—504 Gilbert Bldg., Ardmore, Okla. **Underwriter**—Petroleum Finance Corp., Oklahoma City, Okla.

★ **Town Enterprises, Inc.**
Oct. 14 (letter of notification) 264,000 shares of class A common stock (par 50 cents) and 72,000 shares of class B stock (par 50 cents). **Price**—For class A, $1 per share; and for class B, 50 cents per share. **Proceeds**—For working capital, etc. **Underwriter**—None.

United Gas Corp. (10/26)
Sept. 23 filed $25,000,000 of sinking fund debentures due 1973. **Proceeds**—To purchase $10,000,000 of 5% sinking fund debentures of United Gas Pipe Line Co., a subsidiary, to provide it with funds for construction; and to replenish the treasury of United Gas Corp. and for other general corporate purposes, including advances of such additional funds as may be required by Union Producing Co., another subsidiary. **Underwriters** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co., White, Weld & Co. and Equitable Securities Corp. (jointly); The First Boston Corp., Harriman Ripley & Co., Inc. and Goldman, Sachs & Co. (jointly). **Bids**—To be received up to noon (EST) on Oct. 26, at Room 2033, Two Rector St., New York 6, N. Y.

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) being 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.

★ **United States Millwork Corp.**
Oct. 8 (letter of notification) 15,000 shares of class A or class B stock (each purchaser must buy a minimum of 100 shares of each). **Price**—$20 per share. **Proceeds**—For general corporate purposes. **Office** — 3201 Fremont Ave., Seattle, Wash. **Underwriter**—None.

★ **United Western Sales Division, Inc., Denver, Colo.**
Oct. 13 (letter of notification) 100,000 shares of preferred-common stock (par 1 cent). **Price**—50 cents per share. **Proceeds**—For advertising and merchandising. **Office**—619 — 22nd St., Denver, Colo. **Underwriter** — Emmett Powers.

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.

★ **Utah Oil Refining Co.**
Oct. 15 filed 13,970 shares of capital stock (par $25) of Standard Oil Co. (Indiana) to be offered for purchase by trustee under the Thrift Plan for Employees of Utah Oil Refining Co. and its subsidiary (Utah Oil Building Corp.) for the accounts of and at the directions of employees of Utah Oil and its subsidiary. Standard Oil owns 72.4% of the outstanding Utah Oil Refining capital stock.

★ **Vaca Oil Co., Inc., Oxnard, Calif.**
Oct. 16 (letter of notification) 50,000 shares of common stock (par 25 cents). **Price**—$1 per share. **Proceeds**—For working capital. **Office** — 306 West Fourth St., Oxnard, Calif. **Underwriter**—None.

Washington Water Power Co.
May 7 filed 1,088,940 shares of $1.28 cumulative convertible preferred stock (par $25) and 1,088,939 shares of common stock (no par) to be issued in connection with the proposed merger into company of Puget Sound Power & Light Co. on the basis of one-half share of preferred and one-half share of common for each Puget Sound common share to holders who do not elect to receive cash at the rate of $27 per share. **Underwriter**—None.

West Coast Pipe Line Co., Dallas, Tex.
Nov. 20 filed $29,000,000 12-year 6% debentures due Dec. 15, 1964, and 580,000 shares of common stock (par 50 cents) to be offered in units of one $50 debenture and one share of stock. Price — To be supplied by amendment. Proceeds—From sale of units and 1,125,000 additional shares of common stock and private sale of $55,000,000 first mortgage bonds, to be used to build a 1,030 mile crude oil pipeline. Underwriters—White, Weld & Co. and Union Securities Corp., both of New York. Offering—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) being 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.

● **Wing Oil & Gas Corp., New York (10/23)**
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. (11/12)**
Oct. 21 it was stated registration is expected on Oct. 23 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. 12; rights to expire about Nov. 27. 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.

★ **Arizona Public Service Co.**
Oct. 13 it was reported company is planning some additional common stock financing before the end of this year, but the amount, etc., has not yet been determined. **Underwriters** — The First Boston Corp. and Blyth & Co., Inc.

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 National Bank of Cleveland (11/2)**
Oct. 21 it was announced stockholders will vote Nov. 2 on increasing the capital stock by 140,625 shares, which are to be offered for subscription by stockholders of record about Oct. 27 on the basis of one new share for each of the 562,500 shares (par $16) presently outstanding.

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.

★ **Chicago, Burlington & Quincy RR. (11/4)**
Bids will be received by the company on Nov. 4 for the purchase from it of $5,400,000 equipment trust certificates to mature in 30 equal semi-annual instalments. Probable bidders: Halsey, Stuart & Co. Inc.; 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).

★ **Commonwealth Edison Co.**
Oct. 19 Willis Gale, Chairman, announced that if the separation of the gas and electric properties is carried out, a substantial block, perhaps $60,000,000, of mortgage bonds constituting a lien on the gas properties would be sold to public investors by Edison as the next step in financing its $1,100,000,000 postwar construction program. Upon transfer of the properties, Northern Illinois Gas Co., the new gas company to be formed would assume the sale obligation of the bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Glore, Forgan & Co.; The First Boston Corp.

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 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.

★ **Iowa Southern Utilities Co. (11/23)**
Oct. 15, Edward L. Shutts, President, announced that stockholders will on Nov. 12 vote on increasing authorized common stock by 300,000 shares, or to 1,100,000 shares. It is planned to raise additional capital required at this time by the sale to the public of approximately 100,000 common shares. **Price**—Will depend on market conditions. **Proceeds**—About $2,000,000 will be used to pay bank loans and for new construction. **Registration**—Statement expected to be filed on or about Nov. 2. **Underwriter**—May be The First Boston Corp., New York.

★ **Koehring Co.**
Oct. 14 it was stated that company is planning to issue and sell 50,000 additional shares of common stock. **Proceeds**—To finance acquisition of control of Waterous, Ltd., which will be known as Canadian Koehring Co., Ltd. **Underwriter** — Probably Loewi & Co., Milwaukee, Wis.

Maier Brewing Co., Los Angeles, Calif.
April 18 it was announced company will offer 400,000 additional shares of common stock to its stockholders at rate of four new shares for each share held. **Price**—$5 per share. **Prcoeeds** — To help finance a new bottling plant. **Underwriter**—None.

Milwaukee Gas Light Co.
July 7 company sought SEC approval of a bank loan of $9,000,000 the mature Aug. 1, 1954. These borrowings, plus retained earnings, are designed to finance expansion pending formulation of permanent financing prior to maturity of notes. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Glore, Forgan & Co. and Lehman Brothers (jointly); Smith, Barney & Co. and Blyth & Co., Inc. (jointly); Kuhn, Loeb & Co.; Kidder, Peabody & Co.; Harriman Ripley & Co. Inc.

Minnesota Power & Light Co.
Aug. 3 it was announced stockholders will vote Oct. 1 on increasing the authorized common stock (no par) from 2,000,000 shares (858,047 shares outstanding) to 3,000,000 shares and on approving a 2-for-1 stock split. This will place the company in a position to proceed promptly with any new financing that may become necessary. Immediate offer not contemplated. **Underwriters**—May be determined by competitive bidding. Probable bidders: Kidder, Peabody & Co.; Blyth & Co., Inc.

Monongahela Power Co. (12/1)
Sept. 9 it was announced that company is planning issuance and sale of $10,000,000 first mortgage bonds due 1983. **Proceeds**—For construction program. **Underwriters** To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; W. C. Langley & Co. and The First Boston Corp. (jointly); Kuhn, Loeb & Co.; Kidder, Peabody & Co. and White, Weld & Co. (jointly); Glore, Forgan & Co.; Lehman Brothers, Equitable Securities Corp.; Union Securities Corp. and Salomon Bros. & Hutzler (jointly); Merrill Lynch, Pierce, Fenner & Beane; Harriman Ripley & Co., Inc. **Bids**—Tentatively expected to be received on Dec. 1. **Registration**—Expected about Oct. 30.

Mystic Valley Gas Co.
Sept. 21 it was reported company plans issuance and sale of about $6,000,000 of bonds. **Underwriters**—May be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Merrill Lynch, Pierce, Fenner & Beane and Union Securities Corp. (jointly); Lehman Brothers; Kidder, Peabody & Co.

Narragansett Electric Co.
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.

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:

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Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Kidder, Peabody & Co.; Blair, Rollins & Co. Inc.

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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Observations...

the company and its security holders, it is proposed to provide that the management's proxy material need not contain the name and address of the security holder if it contains, in lieu thereof, a statement that the name and address of the security holder will be furnished upon request."

This credo is sure to cause a storm of protest. It will be contended that the identity with the standing of the maker of a complicated proposal is helpful to the appraisal of the matter by the lay stockholder; and possibly that it will be embarrassing as well as cumbersome to ask the company for such identification. Moreover, it may be contended that identification may be helpful also to management in cases where it reveals the proposer as a recurrent superficial pest. And some nasty folk are saying that management too gets a lot of publicity "on the house" in many directions, so why not the stockholders?

The other important pending innovation regarding stockholder proposals relates to the re-running of those that do not elicit appreciable support. Under the present rules a proposal must be repeated in the proxy if it received 3% of the total number of votes cast at the last annual or subsequent special meeting; resulting sometimes in the repetition year after year of proposals which won very modest support by fellow-stockholders.

Now it is planned instead to provide that a proposal may be omitted for a period of three years if it has been submitted within the past five years and received less than 3% in the case of a single submission, less than 7% on a second submission, or less than 10% on a third or subsequent submission during such five year period.

Grist for the "Corporate Democrats"

The "corporate democrats" will be contending that under the present pro-management influences, it is most difficult to get a sizable following with a mere 100-word explanation of a complicated complaint and proposal—and "anyway, why the hullabaloo just to prevent a little extra space being wasted, or publicity among fellow-shareholders? A 100-word statement buried in proxy material surely is no filibuster."

Disclosure of Remuneration and Intra-Company Arrangements

Also proposed are some changes in the reporting of information regarding remuneration and other transactions. A new instruction would be added which would specifically permit the omission of information where the amount of options granted or exercised does not involve an aggregate purchase price in excess of $30,000. (Previously, no amount defining such arrangements as material had been specified.)

Likewise, the compulsion to give the data relating to the indebtedness of insiders is raised from cases involving $1,000 to $30,000.

And the dividing-line figure for the disclosure of officers' remuneration has been raised from $25,000 to $30,000.

Considerable added discretionary power as to interpretation and what is to be included or withheld is given to the Commission. Quite ironically, such increase in administrative power in this instance is objected to by the very people (the reformers) who have favored it so much in the enforcement of other areas of the Securities Acts.

Stockholder Interest the Real Key to His Welfare

But it must be realized that effective company democracy does not depend on the detailed form of the proxy rules, nor on any kind of legislation. The root of the public stockholder's impotent status in the company which he owns, lies in his apathy and lack of education. Nor would even an overflow attendance at meetings, if the purpose be to see a show or eat the company's sandwiches, be effective. What is badly needed is self-education for the equipment to arrive at intelligent judgments, together with real active interest functioning in the exercise of the duties and privileges pertaining to the company in which he is an owner. Persistent owner abdication cannot suffice in the investment process, any more than it can in real estate or business.

At least, let the mutual fund managers by active and constructive participation in the affairs of companies whose shares are in their portfolios, set a good example in keeping alive the franchise of the army of shareholders for whom they have assumed the responsibility to serve in a trustee capacity.

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Fear of United States Deep Depression Unwarranted

steadily upward. The population of the world has been increasing; so have the needs and wants of this population as consumers, and so have production and productivity, the ability to fulfill these wants. In recent decades, particularly in the United States, the continuing rise has been spectacular. There have been some dips and temporary setbacks, but the general upward climb, in production, in trade, and in living standards, has not been halted. I believe we have the wit, the will, and the wherewithal to keep it moving in the same direction.

A Well-Balanced Economy

The question that remains is: What is the present position in the United States? A careful analysis should make it clear that the American economy is fundamentally well balanced. Production, investment, incomes, and employment are all at very high levels. The picture is by no means uniform, but it hardly ever is. Steel production has eased up somewhat, as has output in some other heavy industries. But in numerous so-called "light" industries, production is greater. Farm income has been lower than its earlier peak for some time, which is a matter of concern, but total national income remains high.

Actual expenditures on defense are just about at their peak and, in the absence of any unexpected developments, will continue very close to that level for a good many months to come. At the moment overall government expenditures are being reduced, but the effects of this are likely to be offset by tax reductions, which will leave more spending money in the hands of private citizens. Those who make economic predictions are particularly likely to go astray when they try to prefigure what millions of consumers are going to do with their money.

The United States has always had a dynamic and expanding economy. The general direction of the line on the U. S. economic chart is upward, but as in all such charts it is not a straight line. Nothing in the present American economic scene would lead any informed observer to see a deep depression in offing. Because of recent changes in several of the economic indices, various observers are considering the possibility of a mild recession. From the evidence thus far available, I do not think that it is certain. On the other hand, it cannot be ruled out.

One of the most important things to remember, however, is that the present U. S. Administration recognizes this possibility and is preparing to deal with it, if it occurs. It may be worth recalling the declared policy of President Eisenhower on this matter. In June, the President sent a message to Congress, describing his plan to reorganize the Council of Economic Advisers and to establish an interdepartmental advisory board on economic growth and stability.

In the course of this message, he said:

"It is well that the Congress has declared in the Employment Act of 1946 the continuing policy and responsibility of the Federal Government to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining, consistently with free competitive enterprise and the general welfare, employment opportunities for all."

I think it should be clear from this that, if the American economy shows real signs of serious decline, the U. S. Government will not sit idly by. In any action that might be taken I am sure the U. S. Government will be concerned with the external as well as the domestic effects of a drop in economic activity in the United States. President Eisenhower has repeatedly emphasized his awareness of the interdependence of the economies of the free nations and the impact which economic developments at home have on conditions abroad.

The American people are convinced of the beneficent possibilities of an expanding economy, not only in the United States but in the world as a whole.

Purpose of Aid Programs

That is why we have devoted so much effort in our aid programs to the creation of conditions which would permit expansion of production and trade in Europe.

That is why we created the technical assistance program to help increase output per man in industry and agriculture in each country And that is why we have supported all the measures to create an enlarged common market in Europe which would give more room and leeway for expansionist policies and adequate outlets for the fruits of higher productivity.

These programs are not supported by the American taxpayer out of sheer altruism. They are rather the natural expression of the belief held by Americans that economic expansion everywhere leads to international stability, security, and prosperity and is therefore to America's own self-interest.

In the concern that is being expressed about business prospects for the immediate future, it may be useful to keep one idea in mind, particularly for those who do business in a great exporting country such as England. It is always important to press for higher efficiency and productivity in a growing economy. It brings benefits for all in the best of times. But if things begin to look a bit tighter, higher efficiency becomes more vital than ever in the face of increasing competition. And ultimately it is the most certain way to get the curve back on its upward climb again.

Britain and America are already engaged with the other nations in the North Atlantic community in a great common effort to guard the security of the free world and assure a lasting peace. But this effort can succeed only if it is based on a foundation of political and economic strength. This strength can be achieved in today's world only if we commit ourselves jointly to bold and imaginative programs of expansion, in production, in trade, and in standards of living throughout the free world.

On the basis of the past experience of our two countries, I am certain we are bound to succeed. From the time of the industrial revolution in this country and the development of our vast contingent across the ocean, we have both been operating on expansionist lines. This policy of economic expansion has served us both well. But today it is more than the boon of the fortunate few. It is the hope—and need—of the entire world.

Pennsylvania Co. Promotes Three

PHILADELPHIA, Pa. — The Pennsylvania Company for Banking and Trusts has announced the following executive promotions in the Trust Department: George W. Hemphill, from trust investment officer to Assistant Vice-President, and Edward F. Deiss and Henry H. Pease, Jr., from assistant trust investment officers to trust investment officers.

Joins Wood Gundy Staff

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Mrs. Virginia O'Connor has joined the staff of Wood, Gundy & Co., Inc., 105 West Adams Street. Mrs. O'Connor was previously with Glore, Forgan & Co.

With Hess Inv. Company

(Special to THE FINANCIAL CHRONICLE)

QUINCY, Ill.—Joe C. Hootman is now connected with Hess Investment Company, Illinois State Bank Building.

Quail Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

Davenport, Iowa — John T. Gerwe, Jr. is now with Quail & Co., Davenport Bank Building, members of the Midwest Stock Exchange.

Geo. Clarke Adds

(Special to THE FINANCIAL CHRONICLE)

LAKE CHARLES, La.—Jess M. Knowles, Jr. is now with George W. Clarke, Weber Building.

Joins Vance, Sanders Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Timothy G. Holden has become associated with Vance, Sanders & Co., 111 Devonshire Street.

Forms F. W. Doyle Co.

(Special to THE FINANCIAL CHRONICLE)

LYNN, Mass. — Frederick W. Doyle is engaging in a securities business from offices at 7 Central Square under the firm name of F. W. Doyle & Co.

Three With Hamilton

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo. — Harold H. Hawxhurst, Arthur B. Norland and Ferdinand R. Svoboda have become affiliated with Hamilton Management Corporation, 445 Grant Street.

Greene & Co. Sells Helicopter Shares

Greene & Co., New York City, announces that the recent issue which they offered of 53,852 shares of Doman Helicopters, Inc. common stock at $3 per share has been oversubscribed.

Bowen, Rayvis With Hentz

(Special to THE FINANCIAL CHRONICLE)

MIAMI BEACH, Fla.—Mrs. L. Blanche Bowen and Joseph A. Rayvis have become associated with H. Hentz & Co., 414 71st Street. Mrs. Bowen was formerly with Goodbody & Co. and prior thereto was in charge of the Coral Gables office of Francis I. du Pont & Co. Mr. Rayvis was with Francis I. du Pont & Co. and in the past conducted his own investment business in Miami.

With Oakes & Co.

(Special to THE FINANCIAL CHRONICLE)

MIAMI, Fla.—Frank L. Dempsey has become connected with Oakes & Company, Ingraham Building.

With Mitchell, Hutchins

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Edward J. Wargin has become associated with Mitchell, Hutchins & Co., 231 South La Salle Street, members of the New York and Midwest Stock Exchanges. Mr. Wargin for many years was cashier for Hicks & Price.

With Amos C. Sudler Co.

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo. — Robert W. Hughes has been added to the staff of Amos C. Sudler & Co., First National Bank Building.

Joins Allen Staff

(Special to THE FINANCIAL CHRONICLE)

LAKELAND, Fla. — Thomas H. Ayre, Jr. has joined the staff of Allen & Co., 211 East Lemon Street, members of the Midwest Stock Exchange.

With Oscar Dooly Co.

(Special to THE FINANCIAL CHRONICLE)

MIAMI, Fla. — Juan Salleras-Llinares is now with Oscar E. Dooly & Co., Ingraham Building.

With Renyx, Field

(Special to THE FINANCIAL CHRONICLE)

WELLESLEY, Mass.—George P. Howes is now with Renyx, Field & Company.

Joins Straus, Blosser

(Special to THE FINANCIAL CHRONICLE)

DETROIT, Mich.—Peter S. Viviano has been added to the staff of Straus, Blosser & McDowell, Bankers Equitable Building.

Railroad Securities

Illinois Central

Illinois Central has had its answer to the question of how investors view their holdings of the road's junior bonds and preferred stock, and the long-term prospects for the company. The management had asked for tenders of the debenture 4¾s, 1966 and the 6% preferred stock. No price was specified and the company did not reveal how much money it was prepared to use in the operation. When the offer expired on October 15 the management said that no satisfactory offerings had been received and all tenders had been rejected. It is obvious that holders were perfectly willing to sit with their bonds and stock unless, and until, they could be disposed of at prices in excess of those the company considered worthwhile from their point of view.

Although these securities are obviously looked upon in many quarters as possessing considerable investment merit it is notable that both the bonds and the stock declined after the announcement. Presumably while investors are not anxious to divest themselves of their holdings, there had been some trading commitments made when the tender offer was first made and disappointed speculators withdrew last week. At the same time, the common stock advanced in sympathy with the generally firmer tone and improved sentiment that characterized the market as a whole. Even with this recovery, the common at the end of last week was still selling some 20% below the year's top. Many analysts feel that at these levels the stock is one of the most attractive among the better grade rails.

As we have mentioned a number of times in this column, one of the strongest aspects of the Illinois Central picture has been the vast financial strides of the past 10 or 12 years. Few, if any, railroads have done so extensive a job of reducing non-equipment debt without recourse to judicial reorganization as has Illinois Central. At the same time, what was at one time considered a virtually insurmountable near-term maturity schedule has been solved.

As of the end of last year there remained only about $12 million of the 1955 maturities outstanding. Even though these are protected by a "stand-by" agreement with insurance companies, Illinois Central has continued to buy them in steadily in the current year. It is also obvious that the management considers the company's financial status at least adequate. If they did not it is hardly likely that they would have asked for tenders of the debentures and the preferred stock.

Because it has a fleet of modern and efficient steam power, and because the line has few troublesome grades, Illinois Central has been doing relatively little in the way of road freight dieselization. Some has been done in the past year or so, however, and this gradual program will presumably be continued, subject to possible development of a more efficient engine in the coal fired gas turbine. It is true that the company has developed a high degree of operating efficiency with its steam power. Nevertheless, analysts generally are of the opinion that the performance can be improved upon with greater dieselization or, alternatively, a large fleet of coal fired gas turbines. This is looked upon as an important plus factor in the long-term earnings picture.

Last year the company reported earnings of $16.26 a share on its common stock, Revenues were up slightly in the eight months through August and the operating ratio was pared by more than three points. Thus, despite the substantially heavier income tax bite common share earnings for the period increased by $3.45, to $12.14. Presumably there will be some tapering off in the closing months but for the year as a whole earnings of about $18.00 appear reasonable. With this background there are many in the financial community who feel that the dividend, which was recently increased to a $5.00 annual rate, may be further increased over the not too distant future.

DIVIDEND NOTICE

Burroughs

215th & 216th CONSECUTIVE CASH DIVIDEND

Quarterly dividend of twenty cents ($0.20) a share has been declared upon the stock of BURROUGHS CORPORATION, payable December 10, 1953, to stockholders of record at the close of business November 13, 1953.

Special dividend of ten cents ($0.10) a share has been declared upon the stock of BURROUGHS CORPORATION, payable January 8, 1954, to stockholders of record at the close of business December 11, 1953.

SHELDON F. HALL,
Vice President and Secretary

Detroit, Mich.
October 12, 1953

DIVIDEND NOTICES

GAMEWELL

At a meeting of the Board of Directors of The Gamewell Company, held today, Friday, October 16, 1953, a dividend of $.35 cents per share, was declared payable on the Common Stock of the Company on November 16, 1953, to stockholders of record at the close of business on November 6, 1953.

W. C. Beck, Treasurer

INTERNATIONAL HARVESTER COMPANY

The Directors of International Harvester Company have declared quarterly dividend No. 141 of one dollar and seventy-five cents ($1.75) per share on the preferred stock payable December 1, 1953, to stockholders of record at the close of business on November 5, 1953.

GERARD J. EGER, Secretary

INTERNATIONAL HARVESTER COMPANY

The Directors of International Harvester Company have declared quarterly dividend No. 155 of fifty cents (50¢) per share on the common stock payable January 15, 1954, to stockholders of record at the close of business on December 15, 1953.

GERARD J. EGER, Secretary

DIVIDEND NOTICES

SOUTH AMERICAN GOLD & PLATINUM COMPANY

61 Broadway, New York 6, N. Y.

October 19, 1953.

A quarterly dividend of ten (10¢) cents per share has been declared payable December 14, 1953, to stockholders of record at the close of business on November 30, 1953.

JOHN G. GREENBURGH, Treasurer.

THE SOUTHERN COMPANY
(INCORPORATED)

Directors of The Southern Company, at a meeting held on October 20, 1953, declared a quarterly dividend of 20 cents per share on the outstanding shares of common stock of the Company, payable on December 5, 1953 to holders of record at the close of business on November 2, 1953.

L. H. JAEGER, Treasurer

SOUTHERN NATURAL GAS COMPANY

Birmingham, Alabama

Common Stock Dividend No. 59

A dividend of 35 cents per share has been declared on the Common Stock of Southern Natural Gas Company, payable December 14, 1953 to stockholders of record at the close of business on November 30, 1953.

H. D. McHENRY,
Vice President and Secretary.

Dated: October 17, 1953.

DIVIDEND NOTICES

TEXACO

THE TEXAS COMPANY

205th

Consecutive Dividend and Extra Dividend

A regular quarterly dividend of seventy-five cents (75¢) per share and an *Extra* dividend of forty cents (40¢) per share on the Capital Stock of the Company have been declared this day, payable on December 10, 1953, to stockholders of record at the close of business on November 6, 1953. The stock transfer books will remain open.

ROBERT FISHER
Treasurer

October 20, 1953

Edison

Southern California Edison Company

DIVIDENDS

CUMULATIVE PREFERRED STOCK 4.08% SERIES DIVIDEND NO. 15

CUMULATIVE PREFERRED STOCK 4.88% SERIES DIVIDEND NO. 24

The Board of Directors has authorized the payment of the following quarterly dividends:

25½ cents per share on the Cumulative Preferred Stock, 4.08% Series;

30½ cents per share on the Cumulative Preferred Stock, 4.88% Series.

The above dividends are payable November 30, 1953, to stockholders of record November 5, 1953. *Checks will be mailed from the Company's office in Los Angeles, November 30, 1953.*

P. C. HALE, Treasurer

October 16, 1953

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—President Eisenhower is being advised, almost implored, to restore conventional ways of doing business with local political organizations.

This is one of the direct consequences of the debacle of the by-election in Wisconsin. Party officials make even less effort privately to conceal their most pessimistic appraisal of this election. In public, except for the cheerful Attorney General, they make little enough effort to cover up.

Between now and January the President, of course, has a tough problem making up a package of legislative proposals that can pass, and that have a chance of saving even the present nominal control of Congress. Whatever policies the President hits upon, however, in the face of demonstrated agricultural dissatisfaction, is one thing.

Another thing is repairing the local political organizations. To leave them in disrepair, the President is being told, is inexcusable. It is one constructive step which can be taken leading to a clear-cut force for improvement of the chances of the Republicans. To neglect it is to court disaster for the Administration.

Party officials privately expected the Republican candidate in the Wisconsin by-election to barely squeak by, by a margin of 1% to 2% of the total vote in the constituency. Two things definitely happened. The Democratic local organizations got out their vote; the local Republican organizations did not.

Even before the Wisconsin by-election, knowing individuals in the GOP figured they had almost 25 House seats that were in serious jeopardy. They have sat down with local GOP leaders in those districts, including the Wisconsin constituency.

Local GOP Is Demoralized

Without exception they found the local GOP organizations in a bad state of demoralization. This is because in dealing with party matters, more particularly patronage, the White House has adopted the high and mighty attitude of ignoring the party organizations on the local plane, or so GOP leaders report.

Customarily, if an office is at least not of front rank national importance, the head patronage man in the state consults the GOP Congressman, who in turn consults as many GOP county or precinct workers as he can. In this way as many local party workers as possible feel they have a voice in distributing patronage. This is the business of "recognizing" the efforts of the local party workers. It gives them a feeling of belonging to the whole organization, and is a personal satisfaction to compensate them for door-bell ringing when election time comes around.

In at least five states all patronage is being disbursed through the GOP Governor. In several other states it is being handled by the Republican national committeeman for the state. Even where, in a few cases, conventional political operating procedures have been followed, and local party people have united on a good recommendation, the White House, in the person of Sherman Adams, has turned down the individual locally-recommended.

GOP Congressional leaders are trying to impress the President that the grave stake is control of Congress. Either Mr. Adams must learn the importance of this coming battle, or be given advice that his political wisdom is not penultimate.

Mr. Eisenhower recently made an off-hand press conference crack that he was not going to take any part in local elections. Many Republicans hope this was just a thoughtless remark by a President untutored in the ways of politics, for otherwise many a seat will be lost for lack of a Presidential assist.

So heedless has the President been, however, of the peculiar election problems of GOP Congressmen, that some have a horrible fear that he thinks he can enhance his personal popularity and get bi-partisan backing for his "middle of the road" approach without striking for GOP Congressional control. They say that one week of the new Congress after a GOP Congressional set-back, if one occurs next November, Mr. Eisenhower will learn as did Mr. Hoover, that overall the grasping for power is of far more importance to Democratic (or any other) politicians than the advancement of so-called "liberal" policies.

Dodge Forecasts '55 Deficit

Considerable significance was attached to the public indication given by Joseph Dodge, Director of the Budget, before the Economic Club of Detroit, that the fiscal '55 budget would be at least as much out of balance as the current year's budget. [For text of Mr. Dodge's talk see first page.—Ed.]

In the first place, this was the first public admission by any key official of the Eisenhower Administration, that the deficit will continue through '55.

There may be a greater significance, however. Fiscal officials may be swinging away from their previous approach of about a month ago, when by talking about "turning points toward a balanced budget" and emphasizing the cash instead of the actual budget, they were seeking to convey the impression that the job of budget-balancing was about done.

Mr. Dodge seems to be courageously leading the way toward emphasiziing what a big job remains to be done. Naturally, it will be embarrassing to the Eisenhower Administration to have it known that another year of unbalanced budgets is ahead. However, that would become known in any case in January 1954, when the President submits his new budget.

Incidentally, the Dodge speech is indirect corroboration of the assessment which began to appear last March, that a balanced budget before fiscal '56 was out of the question. Such an outlook was inevitable when the magnitude of the new President's military and foreign aid programs became known, or hinted, as they were Feb. 24 in executive sessions before the Senate Banking Committee.

Government Profits from Bank Earnings

Between the first half of 1952 and the first half of 1953, there was sharp upward adjustment in interest rates. Supposedly banks should profit handsomely thereby, for normally there is a lag between the return on credit and the price paid to entice bank deposits, in a period of rising interest rates.

And the whole "liberal" front has been hacking away at the notion that the ending of free and full manufacture of credit money was a plot to enrich banks and other lenders.

The Comptroller of the Currency has analyzed national bank operations during these two six-months periods, comparatively.

National bank net earnings actually rose $14.6 million from the 1952 to the 1953 period, but, because of increased capital funds, there was no percentage rise in earnings before dividends. The actual earnings rate on capital funds in 1953 was 8.21% versus 8.22% in 1952.

Federal income taxes alone rose, however, by $48.1 million, or more than three times as much as net rose.

Furthermore, Federal income taxes alone in the 1953 period aggregated $262 million compared with $293.5 million of profits.

Dividends declared in the 1953 period amounted to $127.8 million, less than half the $262 million of Federal income taxes, and these exclude other Federal taxes and state income taxes on banks.

The story of these figures seems to be that the rising interest rate trend might have benefited banks if the Federal income tax collector had not got there first.

Seek Liquidation of RFC Loans

Tentative arrangements worked out between Kenton R. Cravens, RFC Administrator, and bankers' groups, provide for as rapid a liquidation as possible of RFC loans.

RFC examiners, acting as personal representatives of Mr. Cravens, are getting in touch with banks personally to interest them in purchasing loans roughly in the neighborhood of $200,000 to $500,000 each. The RFC will if necessary enter into an agreement to cough back 90% of the unpaid balance taken over by a bank, in case the bank runs into a tight situation.

On loans running from $500,000 to $10,000,000, it is hoped to set up some kind of a pool institution which will take these over and sell participations in the pool to banks. This probably will require special legislation next year to make such investments bank-eligible.

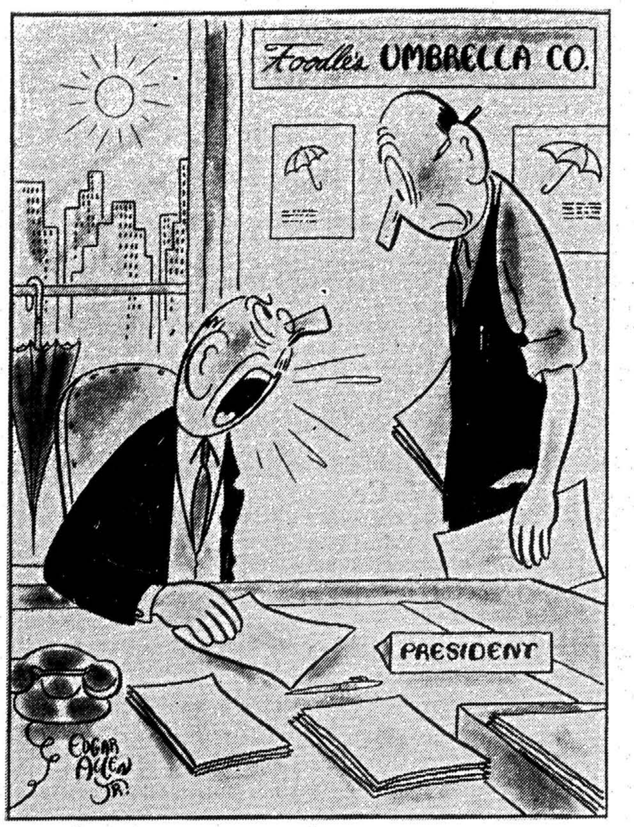
Details for merchandising the smaller loans—95% of RFC's total in number of 5,000 defense and business loans—will be announced later.

Seeks Big Pipeline

The oil industry is up in arms over the proposal of the Director of Defense Mobilization that a huge oil pipeline be built which would transport nearly a sixth of the nation's oil from the Gulf and Texas to the East, as a measure of national defense.

(This column is intended to reflect the "behind the scene" interpretation from the nation's Capital and may or may not coincide with the "Chronicle's" own views.)

BUSINESS BUZZ



"I don't care if it IS sunny, Jetsam — your crime is unpardonable—coming to work without your umbrella!!"

Business Man's Bookshelf

Applied Imagination — Alexander Osborn — Charles Scribner's Sons New York City.

Brief for Sartorius Group of First Preferred Stockholders, Intervenors, in opposition to Modification Plan Western Maryland Railroad Company Securities Modification — Amen, Gans, Weisman & Butler, 50 Broadway, New York 4, N. Y. (paper).

Guaranteed Wage, The—Chamber of Commerce of the United States, Washington 6, D. C. (paper), 50¢ (quantity discount).

How to Tell Your Story—A Guide for Dealing with the Press, Radio and TV—National Consumer Finance Association, Bowen Building, Washington 5, D. C. (paper).

International Labor Organization and United States Domestic Law — Leonard J. Calhoun — American Enterprise Association, 4 E. 41st Street, New York 17, N. Y. (paper), 50¢.

1953 Special Session Laws, State of Colorado—$1 per copy—Secretary of State, State Capitol Building, Denver 2, Colo.

No Major Depression in Our Lifetime — A. W. Zelomek — International Statistical Bureau, Inc., 350 Fifth Ave., New York 1, N. Y. (paper).

Problems of United States Policy —James P. Warburg—The Current Affairs Press, 25 Vanderbilt Avenue, New York 17, N. Y. (paper).

Railroad Car Facts: Statistics on Car Building and Car Repairing, 1952 — American Railway Car Institute, 19 East 47th Street, New York 17, N. Y. (paper).

Tax Planning for Foundations and Charitable Giving — William J. Casey, J. K. Lasser, and Walter Lord — Business Reports, Incorporated, Roslyn, L. I., N. Y. (fabrikoid), $12.50.