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EDITORIAL

As We See It

Senator George is one of the latest of the growing list of responsible public figures to express the view that the time has come for us to call a halt upon our economic give-away program to foreign peoples. He, of course, is definitely not the first. Senator Taft, long before his unfortunate demise, had taken just this position, and so have others at various times during the past few months. It seems to us that all these able and patriotic citizens are worthy of full support in their endeavor to inject a little hard, common sense and ordinary prudence into our foreign policies. The world had never seen such generosity—if that is what it should be termed—as that embodied in our so-called Lend-lease operations during the war, operations which, in point of fact, were begun and had gained large momentum before we ourselves became one of the belligerents. Neither had anyone on this earth, so we believe, ever dreamed of such reckless generosity as that embodied in our postwar grants and loans.

When the awful conflict known as World War II came to an end, the spectacles to be observed in many countries of the world could scarcely fail to arouse the sympathies of all those with even a drop of the milk of human kindness in their veins. Under-nourishment to the point of actual starvation in some instances, lack of even the most elementary of bodily needs for housing and clothing in many instances, the want of tools for the production of things so badly needed to replenish the larders and the wardrobes of many peoples or to construct shelter for many populations — these were widely prevalent in those dark days. Emotional exhaustion and lack

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Profit Is Not Without Honor

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

Prominent steel executive decries devitalization of term "profit," and calls for re-establishment of the original significance of the word. Says profit is not without honor, despite sniping by its enemies, since it has a value and significance that will survive all hurricanes of passing semantics and every storm of popular prejudice. Points out there can be no going-concern value if there is no possibility of profit. Stresses profit motive is essential for sustaining large populations, and contends true nature of capitalism is not sufficiently understood by its leaders. Calls for resistance to forces of liquidation and disintegration. Says "enterprise is the basis of all well-being."

Words, like peoples, have their rise and their decline. They also are subject to the effects of diminishing returns. Some may sink into obscurity for a long time and then rise again because of events. We can derive comfort, however, from the view credited to Victor Hugo—"There is one power mightier than that of armies. It is an idea whose time has come."

Clifford F. Hood

The word "profit" is an anemic word in terms of public acceptance. This is the result of more than 50 years of sniping by its enemies. Through this devitalization, hammering and heat treatments which are constructive processes in different operations of the metal-working arts, the word has been reduced to a mere shadow of its former status.

In speaking to this important group of the nation's leaders, I hope I can arouse that pioneering spirit which I know is in your blood aggressively to apply yourselves to the re-establishment of the original significance of the word "profit" and renewal of its value to humanity. It is necessary for thoughtful people to take up such

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*An address by Mr. Hood at the 38th Annual Meeting of the Associated Industries of Massachusetts, Boston, Mass., Oct. 22, 1953.

Our Foreign Policy War Provoking

By ERNEST T. WEIR*
Chairman of National Steel Corporation

Executive of leading steel producer, after expressing optimism regarding soundness of business, calls for open negotiations between Russia and the West as first step toward lasting peace. Urges U. S. to accede to Europe's demand it take initiative in seeking world peace. Says negotiations need not lead to appeasement, but may lead to most dramatic move in history. Concludes "at this moment, there is no business more important than the business of peace."

At present, a question on everybody's mind is where do we stand and where are we going economically? Are we at the end of the "boom"? Are we headed toward a "bust"? Of course, any attempt to answer these questions can be no more than an expression of opinion. In my own opinion, the answer to "end of boom" is yes; the answer to coming "bust" is definitely no. In reality, I believe we have entered a period which may be described as an easing off in the general level of economic activity. It would be strange if this did not happen after the tremendous build-up in production and distribution of all kinds over the past 14 or 15 years. It is only natural that there should be a time of rest, digestion and adjustment. Personally, I do not expect the drop-back to be extensive . . . anything, for instance, that will cause large unemployment. Even with reduced production the outlook, as I see it, is for a continuing condition in which individuals and the country as a whole will be prosperous.

Ernest T. Weir

As one example, the steel industry is now operating at about 95% of capacity. Ninety-five per cent now is equal

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*An address by Mr. Weir at the 36th Annual Meeting Luncheon of the Pennsylvania State Chamber of Commerce, Philadelphia, Pa., October 22, 1953.

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(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

American Broadcasting - Paramount Theatres—Philip L. Carret, Partner, Granbery, Marache & Co., New York City. (Page 2)

Louisiana Land & Exploration Company—Henry J. Low, Manager of Research Department, Bruns, Nordeman & Co., New York City. (Page 2)

PHILIP L. CARRET
Partner, Granbery, Marache & Co., New York City
Members, New York, American and Midwest Stock Exchanges

American Broadcasting-Paramount Theatres

Prescription for profit—buy the shares of a leading company in an unpopular industry which is just about to "turn the corner." One unpopular industry at the moment is the movie business. Why pay to see a motion picture when TV will provide an evening's entertainment free? Some of Hollywood's leading stars are reduced to two Cadillacs and many a theatre owner keeps the marquee lighted only to attract customers for popcorn.

Philip L. Carret

Granted that the motion picture business at the moment represents a sea of troubles, aggravated by 3D developments and possibilities, American Broadcasting-Paramount Theatres still looks like real value. Here is a combination in one package of a major television network, five owned and 95 affiliated stations, a major radio network, five owned and 362 affiliated stations, and more than 600 motion picture theatres. If TV is growing by leaps and bounds, radio staging a sizable come-back and the motion picture industry showing signs of revival, such a combination ought to have real potentialities for profit.

Created by court proceedings in the anti-trust case against leading motion picture producers, United Paramount Theatres started its career in 1949 with 449 wholly owned theatres and interests in 975 others. Terms of the court's decree required that the chain be reduced to not more than 651 houses by March 1 next. Most of this reduction had been accomplished by the beginning of this year and the company had realized some $14,000,000 capital gains in the process. Presumably, management has not sold its best theatres in the divestment program. In all probability, then, the $39,000,000 net valuation of land and buildings on the Jan. 3, 1953 balance sheet represents a very low appraisal of the real values. Regardless of the vagaries of show business, some 600 pieces of downtown real estate in 300 cities should be worth a good deal more than $115,000 apiece.

In February last, United Paramount absorbed American Broadcasting and acquired its present name. The ABC chain was the weak sister among the three publicly owned major enterprises in the radio and TV field but recent news items indicate that a real revival is under way. In September the company announced booking $10,500,000 in new business for its radio network for the fall season. As competition for the consumer's dollar increases, radio and TV time increases steadily in value. TV addicts in the New York metropolitan area have noticed a major improvement in Channel 7 programs this fall and it is apparent that NBC and CBS now have real competition from the former weakling of the industry.

Besides showing alertness in corralling top talent and top advertisers for its radio and TV shows, management of ABC-Paramount has given other evidence of being on its toes. Considerable sums have already been spent or appropriated for 3D equipment in key theatres. Progress has also been made in installing large screen television in strategic spots. A year ago the company made history with a closed circuit television program in a number of its theatres to introduce a new line of carpets to dealers and salesmen for James Lees and Sons. Such profitable use of the theatres in off hours has obvious advantages to add to the use of large screen TV for sporting events and other spectacles.

With the big quarter of 1953 still to be reported, earnings for the year are likely to cover the $1.00 dividend comfortably even though nine months results were only 71 cents a share. Obviously considerable improvement in earnings will be necessary to justify bullish enthusiasm for the stock around the 14 price level. Chances for such improvement look good. Demand for amusement is insatiable, leisure time increases with every round of new labor contracts. Hollywood is really in their pitching again to make better pictures. Congress is likely to help with reduced admission taxes. With annual gross revenues approaching $200,000,000, management of American Broadcasting - Paramount won't have to perform miracles to show sizable earnings on the 4,000,000 shares of common stock outstanding.

HENRY J. LOW
Manager, Research Department, Bruns, Nordeman & Co., N. Y. City
Members New York Stock Exchange and American Stock Exchange

Louisiana Land & Exploration Company

Louisiana Land & Exploration Company, a medium-sized land and royalty company, holds approximately 743,000 acres of oil lands, principally in the southeastern Louisiana Gulf Coast area, one of the richest oil finding territories in the United States. In addition, oil and mineral royalty interests are located in Texas, New Mexico, North Dakota, Montana, South Dakota, Colorado, Mississippi and Florida.

Henry J. Low

The company has agreements for drilling and exploration on its lands with some of the largest domestic oil producers. Its contract with Texas Company, which has been in force since 1928, provides for drilling on about 125,000 acres for which Louisiana Land receives a 25% gross royalty on oil and gas produced plus an 8⅓% share of net profits from each dome. Late in 1951, Texas Company increased its drilling activities on the company's lands by about 50% which resulted in several new important discoveries in Terrebonne Bay, Louisiana. Terrebonne Bay is extending the western part of Caillou Island Field, Louisiana Land's largest single producing property, toward a new productive area which indicates great potential for future oil findings. Louisiana Land has taken an important working interest as an oil producer in addition to its royalty arrangements with Texas Company in this territory. Last year eight wells were completed with two resulting in large extensions of previously known productive sands. In January, 1953, discovery of a gas-distillate well about three-quarters of a mile from the nearest production further confirmed the new producing area.

In December, 1949, Louisiana Land entered into an option agreement with Humble Oil and Refining Company which covered practically all lands held in fee and not leased at that time to other crude oil producers. Under this arrangement, Louisiana Land receives a rental of $1 per acre plus a bonus of $25 for each acre chosen for development. Last December this contract covering approximately 465,000 acres of fee lands was renewed. Until that time Humble Oil had chosen about 48,000 acres which are located in six separate areas and where three oil discoveries and one gas well were brought in. Humble Oil considers the potential of additional large discoveries on these lands very promising.

On Feb. 27, 1951, Texas Company sublet to Freeport Sulphur some fee lands and State water bottoms which were held by Texas Company under its 1928 arrangement. The agreement between the latter organization and Freeport Sulphur provides for exploration and development for sulphur on the Bay Ste. Elaine, Dog Lake and Lake Pelto dome areas in Terrebonne Parish, Louisiana Land and Texas Company share equally in an overriding royalty of $2 per ton of sulphur mined and in 40% of net profits. Mining operations on the Bay Ste. Elaine dome were started on a small scale in November, 1952. Present rate of production is about 400 long tons daily. As mining costs are relatively high, profit contributions from this operation to Louisiana Land are not expected to be significant for some time.

Because of Louisiana Land's activities as a land and royalty company, it has in the past always operated with a relatively small expense overhead. The company has only 57 employees. While Louisiana Land has carried on its own geophysical exploration work under contract, the bulk of drilling and development is conducted by the crude oil producers. The company's drilling operations which in the past have been small have increased recently. This has resulted in considerably larger exploratory and dry hole write-offs in 1952.

Last year 97 wells were completed on the company's territory of which 67 were oil wells, nine gas wells and 21 dry holes. Louisiana Land's net crude oil production in 1952 amounted to 16,167 barrels per day compared with a daily average of 15,241 barrels in 1951. Current net production rate is believed to be around 18,500 barrels daily. 1952 total net crude oil production was 5,901,000 barrels compared with 5,563,000 barrels in 1951 and 4,817,000 barrels

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Look for Lower Interest Rates!

By RAYMOND RODGERS*

Professor of Banking, New York University

Dr. Rodgers, after making certain assumptions as to the international political situation, business activity, the Budget, and future credit policies, concludes reduced borrowing both by the Federal Government and by business will more than offset any possible increase in state and municipal borrowing, and, in consequence, both short-term and long-term interest rates will be lower.

Any evaluation of potentialities and probabilities in the field of interest rates necessitates the postulation of certain basic assumptions as to business activity, needs of the Treasury and credit policy of the Federal Reserve Authorities. As conclusions can be no better than the assumptions on which they are based, such assumptions should be "spelled out" with sufficient detail and supporting data to justify their acceptance or rejection. This method enables you practitioners — you gentlemen who throw the snowballs that the ivory tower boys dream up—to modify your conclusions to the extent that you may find yourself unable to accept the assumptions.

Raymond Rodgers

Assumption on International Political Situation

The first assumption is that the international situation will tend to improve rather than deteriorate.

"Malenkov and Co." seem to be having enough trouble with the satellites, especially the low production and hostility in Eastern Germany, to prevent them from looking for real trouble with the Western World which has so greatly increased its military might since the rearmament drive started more than two years ago. Surely Greece, Korea and Indo-China have convinced the Soviet master-minds that aggression will be met by force. The Russians understand the diplomacy of power and will, undoubtedly, stay on their own side of the iron curtain.

Also, apparently, nothing serious will come of the dispute over Trieste. It will undoubtedly be solved with a compromise which, as all compromises, will not be fully satisfactory to either party. It follows that Trieste will probably remain a bone of contention in the future as in the past, but its importance should not be overemphasized.

So, despite all the recent atomic and H-bomb scare talk from Washington, military expenditures of our Western allies will continue to decline, and our own military expenditures will continue the very moderate decline which has already started.

*A paper by Dr. Rodgers delivered at Luncheon Meeting of the Ninth Annual Convention of the Commercial Finance Industry, N. Y. City, Oct. 26, 1953.

Assumption in Business Activity

The second assumption is that the economy is entering the first phase of a business readjustment. The terrific momentum built up in the earlier months of the year obscures the decline and, in fact, will prevent it from amounting to very much during the remainder of the year. Nonetheless, nearly all of the eight sensitive statistical indicators, which have the best record of turning down in advance of a general decline in business, have shown a downward trend since the early part of the year.

Declining orders, declining unfilled orders, increased sales resistance, increasing failures, particularly in consumer durable goods distribution, and record-breaking inventories of $78 billion indicate that the rose-colored glasses, so necessary in a boom period, should be laid aside. And, while blue glasses are by no means necessary, clear glasses that permit 20-20 economic vision are certainly a **must**, especially in the field of commercial financing!

In this connection, a word should be said about the deflationary potentialities of the unprecedented expansion of plant and equipment in recent years. Expenditures for such expansion have an inflationary impact because of the reduction in goods available for consumption. Such expansion is doubly inflationary if it is financed by increasing commercial bank loans as the expansion of bank credit is an increase in the means of payment—in other words, more dollars and less goods!

But when the new facilities come into production, the situation is reversed. The supply of goods coming to market is increased, and as the bank loans are paid off the money supply is decreased. The results are doubly deflationary. This swing from "double" in one direction to "double" in the other direction is of vital significance to the commercial finance industry!

Assumptions on the Budget

The third assumption is that the Federal budget will not be balanced (except, possibly, on a **cash** basis) for a long time. Certainly for fiscal '54, both lower taxes and a balanced budget are a fiscal impossibility. One of these Republican campaign promises has to be abandoned; and as Congress, with an eye on the '54 Congressional elections, shows little disposition to interfere with the scheduled tax cuts, the balanced budget goal apparently will be sacrificed to political expediency.

This is in no wise intended to

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Restoring Our Free Enterprise System

By HON. JESSE P. WOLCOTT*
U. S. Congressman from Michigan

Prominent Republican Congressman describes problems and policies facing present Administration in its progress from socialistic tendencies to a restoration of a normal free enterprise system. Discusses guideposts adopted to perpetuate our American economic system, and points out "government is not going to produce goods or credit," and all unnecessary direct economic controls are to be removed. Says government bonds will have to be priced in open market, and nation's national debt be put in position where it cannot be monetized. Holds national debt limit can be increased "by implication," and suggests $15 billion differential be established between long- and short-term debt.

I don't know of any more pleasurable assignment than this which has come to me this morning. After these few days of very convivial and understanding experience, I feel that we have all gained a great deal from our associations. I know that I looked forward to it, and I surely hope that you have gotten as much from this convention as we members of the Legislature have, we members who are here from the Federal Government and from the state government.

Jesse P. Wolcott

I think it was very fortunate for all of us that you invited us to participate. I was especially pleased not only that there are members of the Congress here, but there are members here of the State Assembly. It is only through meetings such as this that we in the legislative branch can get a true picture of your problems, and in the little conferences which we have had around on the deck, in addition to these very delightful talks which have been given here, I know that all of us are going back to our legislative functions with a keener understanding of what we must do to convince you that you have been accepted as a part of this great team here in America and in the state, which is reestablishing the American system of free enterprise.

I think we all should start out with the idea that in government today there is an unusual coordination of thinking, of cooperation, of understanding. It is rather refreshing that the members of Congress are called in occasionally with the Executive, not to be told what the program is going to be, but before that, consulted as to what the program should be.

There have been two or three mistakes made until this team got to functioning as smoothly as it is at the present time, but I want to repeat, that it is so refreshing that Congressional leaders, Congressional members are invited to sit down with the policymakers before policy is created and announced. That is why these meetings are so helpful, because you have a certain assurance that your problems are getting to the policymakers before policies are made.

Return to Free Enterprise

We start out on the premise—and this is adopted, accepted policy—that the American system of government is going to be given an opportunity to prove again that it is the best form of government ever created by man. Because of and not in spite of the American Constitution, the American concept of government, we here in America have become the greatest of the nations. We don't have to boast about it, we present only the facts to prove that this must be the greatest form of government ever conceived by man, because under it the American people have been the most successful.

I like to din into my own brain constantly—and I think it is well worth repeating on every occasion—the fact that because of this American free enterprise system in which we are given the opportunity to exploit our own mental and physical resources to the best of our ability, so long as they don't interfere with the rights of others to do likewise, we here in the United States, with only 6% of the population of the world the aggregate more than 50% of normally produce and consume in all of the goods and services produced and consumed in the world.

Let's have that in mind constantly in discussing the American System with those who think that there might be some other, some better approach to our economic and political problems. I like to think constantly of that when those who unconsciously would destroy the American system by the adoption of some form of collectivism, which, for a better term, we call Socialism—but collectivism in any form is opposed to the American concept of free enterprise. I like to have this argument to use and it is not to be controverted that 6% of the world's population here in the United States normally produces and consumes more than 50% of the world's goods.

Guideposts for Free Enterprise

So, believing that that form of government is worth protecting and perpetuating, the Administration has adopted as a matter of policy certain guideposts that this American system might be perpetuated, and all policy in Washington today is built upon the single premise that the American system is going to be given another opportunity to function as we believe the American free enterprise system was intended to function.

And that means simply this: that everything which is done in Washington today is predicated upon the idea that government should encourage, should implement, should supplement, but never supplant the obligation of the people of the United States to produce and distribute their own goods. That connotes, of course, that there should not be the irritating controls which we have experienced, which were justifed in some instances during war and emergencies, but which in peace or semi - peacetime we think should be repudiated as a matter of government policy.

In short, we have repudiated all in any form of collectivism in government, which means that you have to be taken in as a part of this team which has already developed in Washington between the Congress, the White House, the department heads and the bureaus. We all sense the fact that we are a part of the team, and we know that it can't be successful unless the producers of America, whether they produce goods, services or the credit which we like to think is the lifeblood of the American economy, are taken in as a part of the team and realize their responsibility to do the job which they used to expect government to do.

Summing it all up, it means that the government is not going to produce goods. The government is not going to produce credit. We are leaving those functions to the producers under the American system of government. We have in government also rejected inflation as a matter of government policy, because we know that unless our goal is stability of our currency and our economy, then the producers will have no foundation upon which to plan on which to build and our objective is to put you in a position where, because of a sound financial and fiscal structure, you can plan far into the future, and by the future I don't mean week to week or month to month, but looking far into the future during the years we like to feel that American producers can lay out a long-term program with the assurance that at some time short of war or emergency attending war the government is not going to come along and knock the props out from under that planning.

That applies as well to your industry as it does to the manufacturer of automobiles or anything else.

I think that probably that policy should be broken down and applied, but let me say, first, that I think we were all pleased at the announcement which was made by Mr. Lyon in his discussion here that you bankers here in New York State, contributing to this free enterprise system, had removed the ceiling on dividend rates, because that fits into the free enterprise picture which we all desire to perpetuate.

And that is a point which we are glad to take back to Washington as an example of the cooperation which the government is getting from the producers in the acceptance of their responsibility for the restoration of that part of the competitive system which has made America great and will continue to keep America great.

I know of all of the controversies which have raged around some of these points in the transition from inflation as a matter of government policy to stability, which has been accepted as government policy.

No More Direct Government Lending

Let me say—breaking it down to your level—that notwithstanding anything to the contrary which has been said by anyone in government up to this time, there will be no government lending directly. There will be no direct government lending; especially can I give you assurance that there will be no direct government lending in the field of real estate or home financing.

I believe that we are in a position to give you assurance that the suggestions which have been made that the government is to create the credit for home construction and for business expansion—the statements that that is going to come about are not well founded, for the very reason that that does not fit into the pattern which government has accepted for itself and hopes that you will accept. It would be rather inconsistent, it would be rather destructive. Surely, you would lose faith in your government and be justified in losing faith in your government if we were to stand up and tell you that we were not going to compete with you, that you were going to have to furnish the credit for home construction in this production effort, whether it is in the creation of new enterprise or the expansion of existing facilities, and then hold over your head, like a sword of Damocles, the threat that government through the resurrection of RFC or in any other manner was going to furnish the credit which we expect you to furnish.

It is not part of the government's program to do that. So I think we can give you assurance that short of war, short of an emergency attending a war, you are going to be able to plan in the assumption of this new responsibility for years in the future.

I know this is going to be rather an unusual experience for a good many executives. We have found it in the construction industries. No doubt you will find it in the savings banks, this new approach to things, this competitive idea. There are a great many younger executives today who will find it a very unusual experience to compete in an open, free competitive market.

I was talking with a young executive in Detroit a short time ago. He told me of his experience. He said, "You know, heretofore when we had a problem, we usually found a solution of it in some governmental regulation, because the governmental regulations told us what we could or could not do." He told me of his problem the first time he had to solve a problem which he used to solve by referring to a government regulation—to be told that it was no longer in the regulations, that he had to come to his own conclusion, he had to fit it into the pattern of his industry and his competitive position.

He said, "You know, at first it was rather difficult, but now I enjoy it"; and he goes home at night and he thinks these things out, as an author would think out an outline for a story or a piece of literature. He never had to do that before.

Well, the American system has taught us to do that, and we have become great because it was done and it is about time, probably, before we have lost the knack of doing it, to get back into that way of thinking.

New Methods of Meeting Inflation

I think we can also give you reasonable assurance in respect to inflation, that the government, recognizing its obligation is to stabilize our currency and our economy, is going to make as full use as is necessary of the indirect control.

We have repudiated the use of direct controls as a means of stabilizing our currency and our economy. That means that instead of direct price controls to keep the price of goods down, instead of direct consumer credit controls to slow up the velocity of credit, or to reduce the volume of credit, we are going to attack those things at the source, and the orthodox methods which have been at the disposal of the Federal Reserve System since it was instituted in 1913 will first be given an opportunity to function.

In the foreseeable future we believe that the job can be done through the manipulation of rediscount rates, reserve requirements, with possibly a very slight activity in the Open Market Committee, if the price of bonds drops or threatens to drop too low, or, on the other hand, if they threaten to get too high.

Government Bond Market

But no goal has been set. Government bonds will have to find their place and their worth in the open market.

I know how much interest you have in that from the talks here—the competitive situation which you might feel from the government bond market. I think that is a problem which has been considered. I think it is capable of solution, and it will be solved; because of the better understanding of your problem, we can better harmonize your problem with the government's problem.

However, I caution you to be patient. We are going through a transition period at the present time from inflation to stability. Frankly, we are feeling our way along. If we were to put on the brakes too quickly, as we could, the facilities are available to throw this country by fiat of the Federal Reserve or the Treasury,

Continued on page 46

*An address by Representative Wolcott before the 60th Annual Meeting of the Savings Banks Association of the State of New York, aboard the S.S. "Nieuw Amsterdam" on Convention Cruise, October 22, 1953.

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The State of Trade and Industry

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

Virtually no change was recorded in the period ended on Wednesday of last week in nation-wide industrial production when compared with that for the preceding week. While it slightly exceeded the level of a year ago, it was down moderately from the near-record level reached a few months before.

Addressing the convention of the American Trucking Association held in Los Angeles, John T. McCaffrey, President of the International Harvester Co., stated that general business is headed for a decline of 10% to 15%. He added, "there comes a time when we have to go down a little, then level off." The decline, he asserted, is already reflected in sales of farm machinery, which have sagged 18% since May.

With respect to employment, it was noted that the recent rise in claims for unemployment insurance benefits was reversed in the latest week. Claims, however, remained more numerous than a year ago. It was further noted that while the labor supply was not as sparse as during recent months, the available pool of skilled workers remained small.

A slight but contra-seasonal rise in unemployment was currently reported by state agencies for Ohio, Pennsylvania and Indiana. The increase in unemployment claims was attributed chiefly to cutbacks in the automotive, industrial machinery, transportation equipment and textile industries.

This week the Brown Shoe Co., and International Shoe Co., report a decline in orders. Brown has "temporarily closed down" its plant at Festus, Mo., according to Eugene R. McCarthy, Vice-Chairman. Because of a sharp slowdown in orders, International Shoe Co. has been closing its factories for inventory adjustments for about two weeks rather than one week, which has been the "normal" suspension period.

Recent changes in the steel market are testing the mettle of steel users as well as producers, according to "The Iron Age," national metalworking magazine this week. In fact the selling problems of producers have been stressed so much that many people seem not to have noticed that steel buyers face challenging problems too.

Buying confusion, cites "The Iron Age," is evidenced by the following: (1) Some buyers got hung up with commitments for conversion, foreign, or premium-priced steel after it was available at regular mill prices. (2) Some are paying extra freight for material that could be bought closer to home. (3) Some trimmed inventories too quickly, some too deeply: mills have received phone calls and telegrams asking that cancelled orders be restored. (4) Some have not seized the opportunity to avail themselves of alternate sources of supply without materially increasing costs.

On the positive side of the ledger, many purchasing agents have shown a remarkable grasp of the steel market and have reacted quickly and audaciously—altering their buying policy to fit the market, it notes.

Some steel buyers are even taking the initiative — asking suppliers what they intend to do about meeting lower delivered prices of their competitors. Frequently this action results in offers of freight absorption to meet competition. And the purchasing agents are saving money without narrowing their list of suppliers.

Quality is another word freqently mentioned by purchasing agents these days. Rejections because of quality are few and far between, but mills have been made aware that there is an "or else" if specifications aren't met, reports this trade journal.

Judging by consumer reactions so far, it is likely that steel business will be good for at least the next six or eight months, since inventory correction is about two-thirds completed, some major consumers are re-entering the market now, and others are expected back in November, declares this trade authority.

Steel users will enter the new year with inventories at "optimum" size. This should pave the way for a seasonal upsurge because in steel as in many other things spring is usually a time of greater buying, this trade weekly points out.

Extra buying incentive will come from approaching steel wage negotiations. Most steel wage contracts expire in their entirety next June 30, and the United Steelworkers is already busy polishing its case for higher pensions, social insurance, and wages, and a form of guaranteed annual wage. A good many experienced steel buyers will decide they cannot afford to be caught with their inventories down—just in case labor trouble interferes with steel production, concludes "The Iron Age."

Business failures declined in September for the third consecutive month, falling 2% to 686, the smallest number since January. However, mortality normally dips to a seasonal low in September. Compared with the same month in other years, casualties this September were exceeded only once, in 1949, in the postwar period; they were 27% more numerous than a year ago.

The rate of failures, as reflected in Dun's failure index, which adjusts for seasonal fluctuations and extends the toll to an annual basis, rose to 36 for every 10,000 enterprises listed in the Dun & Bradstreet "Reference Book." The September rate compares with 34 in the preceding month and 29 a year ago. This was the severest casualty rate in over three years.

The liabilities involved in September failures were sizable, increasing to $33,817,000, the most for any September since 1932. This rise occurred entirely among failures for $25,000 or more; casualties involving smaller amounts dropped to the lowest level so far in 1953.

All functions except wholesaling reflected mild decreases in

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The Security I Like Best

in 1950. Natural gas production from joint operations is still relatively small but has just about tripled in the last seven years in which period the company's net crude oil production increased approximately 85%.

Louisiana Land has never published any estimates of its oil and gas reserves which according to statements made by the management have increased substantially in recent years. Extensive drilling and exploration on the company's land holdings is expected to result in greater production and development of new reserves. Income from natural gas, although still fairly small, is growing rapidly and some contracts for sale of gas have been revised upward lately.

Net income for six months, ended June 30, 1953, was $1.69 per share compared with $1.32 per share reported for the same period last year. 1953 earnings are estimated at an all-time high of about $3.25 per share compared with 1952 net income of $2.85 per share, after an excess profits tax of 37 cents per share, and 1951 earnings of $2.87 per share after payment of 39 cents excess profit taxes. Dividend disbursements, which have been made continuously since 1935, are at an annual rate of $2.50 per share. In view of this year's record earnings and the company's policy to pay out at least 75% of net income in dividend distributions, a dividend increase appears likely within the near future.

Louisiana Land's capitalization consists solely of 2,977,306 shares of common stock, of which 213,000 shares or 7% are owned by Amerada Petroleum. In addition, several leading investment trusts hold large blocks of shares. Louisiana Land and Exploration is in sound financial and working capital position with current assets of $13,293,000 on Dec. 31, 1952, including cash and government securities of $11,184,000, compared with $6,950,000 current liabilities. The current price of the shares of around 46 compares with last year's high of 54 and an all-time high of 59 reached in 1951.

Recent extensive exploration and development of Louisiana Land's acreage by Texas Company has rapidly increased production of crude oil and natural gas. The contract with Humble Oil and Refining Company, calling for exploration of more than half of Louisiana Land's undeveloped acreage, is expected to accelerate additional discoveries. With the trend for rising natural gas prices likely to continue for some time, the company's large uncommitted natural gas reserves should ultimately contribute further greatly to earnings.

Louisiana Land & Exploration Company common stock is listed on the American Stock Exchange.

With A. M. Kidder

(Special to THE FINANCIAL CHRONICLE)

TAMPA, Fla.—Joseph M. Mandese has become connected with A. M. Kidder & Co., 506 Florida Avenue.

Walston Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif. — Wallace J. Evertz has become affiliated with Walston & Co., 550 South Spring Street.

J. T. Nicholson, Jr.

John T. Nicholson, Jr., an officer of Fitzgerald & Company, New York City, passed away Oct. 18, at the age of 57.

Observations . . .

By A. WILFRED MAY

The SEC Versus the Professional Stockholder

In last week's column we described the SEC's major proposals for changes in proxy solicitation; an institution so vitally important to the working of our corporate system.

Considerable comment has been elicited by the Commission's proposals for increasing the restrictions on the public stockholder's use of the proxy for bringing a proposal to the attention of his scattered fellow company-owners. While the self-seeking activities of a few "publicity hounds" are decried, some observers are worried over substituting therefor stifling of the small shareholder midst our basic capitalistic technique wherein ownership is separated from control.

A. Wilfred May

A clear and interesting statement by an authority who is convinced that aggravation of the stockholder's impotence constitutes too great a price to pay for elimination of the first-mentioned abuse—burning down the barn to kill a few rats—has come to hand from V. Henry Rothschild II, the corporation and tax lawyer. A former Vice-Chairman and Chief Counsel of the Salary Stabilization Board, he is widely recognized as a leading authority in the field of executive compensation which so largely occupies the attention of the minority-stockholder champions. And his opposition to proposals for arbitrary ceilings on compensation, as set forth herein, demonstrates his objectivity in the matter.

(Publication of this communication, of course, does not imply this columnist's or the "Chronicle's" agreement or disagreement with the views expressed.)

Dear Mr. May:

Your Observations last week analyzed with clarity and preciseness the current amendments to its proxy regulations that the SEC has under consideration. In your effort to be strictly impartial, however, you did not sufficiently bring out the threat to corporate democracy inherent in these seemingly innocuous amendments.

The amendments in question have to do with the right of stockholders to have their company submit proposals for consideration at stockholders' meetings. As we all know, effective support for such proposals from holders of securities listed on a national securities exchange can only be solicited and secured through proxy statements and, unless included in the notice of meeting and proxy statement, such proposals may be ruled out of order and denied all consideration.

As you reported, the SEC is now seeking to circumscribe stockholders' proposals, chiefly in two ways—one, by preventing reconsideration of a proposal which did not receive a specific percentage of votes within a prior five-year period, and two, through eliminating the present requirement that a stockholder's name and address be published in the proxy statement in connection with his proposal.

Action Versus the "Professionals"

The recommendations are obviously directed primarily against stockholder representatives such as Lewis D. Gilbert and his associates, and Wilma Soss and her Federation of Women Shareholders. These "professional stockholders" attend a large number of annual corporate meetings each year and seek to advance certain projects—such as regional meetings, cumulative voting, post-meeting reports and, in the case of Mrs. Soss, representation of women on boards of directors. Over the years they have secured a following and, for some of their proposals, possibly through the process of education with constant repetition, they are obtaining more and more support. Considered in some quarters publicity seekers and crackpots, they are believed by others to be public-spirited and command the respect of a number of managements.

Personally, I have no more sympathy with many of their

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A Healthy, Vital Economy Is Our Best Defense

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

Secretary Humphrey, picturing "a healthy, vital, daring economy as nation's first line of defense," upholds program of national security as uppermost over a balanced budget. Points out, however, there would be disaster if arms production exhausts our strength and resources and lays down as basis for surest source of strength in meeting any enemy: (1) "honest money; (2) economical government, and (3) a sound fiscal policy." Holds a balanced but adequate defense program, "fluid and imaginative, mobile and elastic," must be supported by whatever appropriations logic and necessity demand.

I propose to speak tonight of the principles that, I believe, rule and guide us as we face this time of tempest. I think I should first speak candidly of the state of mind with which this Administration has accepted its gigantic task — which is nothing less than the saving of the Republic.

George Humphrey

This state of mind has three characteristics: It is sober; It is patient; And it is confident. We are **sober** because we can see no problem that can be solved by the invention of a slogan. We do not for an instant see Soviet aggression as some obliging kind of demon that can be disposed of by speaking a glittering phrase or indicating a dark threat. We do not dream that—here in our own land—the farmer can be helped, the worker protected, the consumer relieved, or the businessman encouraged — by the golden promises of the demagogue.

We are **patient** for like reasons. We are realists. We scorn panaceas. We respect the fortitude, the courage, the staying-power of the American people. We show that respect by always speaking the plain truth, as we know it.

And we are **confident** for precisely this same reason: we believe in the people. We believe in the ingenuity and the industry of the American as resources that no nation on earth can match. We believe in his capacity to work, to save, to invent, to sacrifice, to create, to dream good dreams—and to bring them to true life.

To do all these things, the people need but one thing once more: a government they can trust — a government worthy of that trust.

This is the kind of government to which we are pledged.

That is the kind of government which we will give the people.

With this state of mind, we are dedicated instantly and inevitably to achieving a certain state of the nation.

What is this state of the nation we seek?

What do we see to be the great and urgent tasks before us?

A Sound Economy Sustaining a Sturdy Defense

I believe they can all be summarized in one statement: a sound economy sustaining a sturdy defense against the enemies of freedom—inspired by a political leadership that is spiritually strong and honest.

Let us analyze this statement.

In the final sense, the health of our economy counts for much more than profits or wages. We assess it not merely in terms of gross national income, balanced budgets, equitable taxes, fair interest rates. We look to it for more than homes and cars, washing machines and television sets. **We see our economy as the first line of defense for every freedom we cherish.**

No other purpose is worthy of us at this time in history.

No other purpose—material or selfish or partisan — guides this government.

What have we done to serve this purpose?

We have a more stable economy than we have had in many years —free and uncontrolled.

Needless Controls Lifted

The alarming legacy from the past, inherited by the present Administration ten months ago, was arbitrarily ruled by needless controls.

We lifted those controls. They were raised almost as quickly as the voices of mourners crying that it could never be done without wrecking the economy. You all remember that impassioned debate. Yet within a matter of weeks, the debate was as dead as the controls.

This was not done by magic or oratory. It was done by applying sound, honest financial policies, freeing natural correctives which safely guarded the whole price structure. The proof of their success is that over the period of a year—when this major overhauling of our economy was achieved —the cost of living moved less than one-half of one percent. This was the disaster which our critics had so gloomily prophesied.

The financial policies making this possible have had a single, simple focus and aim: to give the American people honest American money.

The only thing remarkable about this policy is that many critics and a few demagogues should think it remarkable.

The fact that they do is a sad commentary upon habits of financial thinking acquired in the last 20 years.

But the people themselves are not amazed. Honesty is an old American habit. So is saving. So is individual initiative. So is industry. So is working with hands and brain. So is freedom. And two decades of financial double-talk have not changed these fundamental habits one single bit.

Honest Money Essential

Honest money—the dollar that buys a dollar's worth of goods—is not created by wish or promise or fiat.

It depends upon three things: sound budget policy, sound Federal Reserve System, and sound debt management.

We have worked toward achieving all of these.

First: We are on our way toward getting the budget of the Federal Government under control as rapidly as expenditures for adequate defense permit. We concentrate on this purpose because we know that indefinite deficit financing spurs the forces of inflation and eventually cheats every family in the nation. Knowing this elemental truth, we have cut the prospective deficit for the current fiscal year from more than $11 billion to less than $4 billion.

Secondly: We have assured the Federal Reserve System that it can operate in a way to ensure effective monetary policy. For many years the Federal Reserve's supporting of government securities at par, to preserve artificially low interest rates, invited banks and all other holders of government bonds to sell their bonds—which meant making the debt almost like currency. This, of course, was a sure way to encourage inflation. Today, the Federal Reserve System is free to use its power to provide a supply of credit to meet the requirements of natural demand and avoid excesses leading toward either inflation or deflation.

And **thirdly:** We have a program to meet the problem of debt management imposed upon us by the inheritance of a total debt of more than $273 billion of which nearly three-fourths matures within less than five years. We have offered the first long-term loan in 20 years and will continue to extend the maturities of refinancing operations whenever and to whatever extent appropriate conditions will permit.

Rates of interest are currently determined by changing market conditions fluctuating both up and down with the supply and demand for money. Partisan critics have loudly deplored any increase in interest rates as if they benefited only the few and defrauded most of the people. Nothing could be further from the truth. There are more savers than borrowers in America—more people who benefit from higher interest than those who pay it. These beneficiaries are the 45 million families—the 122 million people—who have invested in savings accounts, life insurance, pensions, annuities, government bonds, mortgages, fraternal and mutual institutions and many other forms of investment for savings.

These, then, are the ways we have sought to make America's economy strong with honest money.

What Republican Party Reforms Mean

What does the result of such a policy mean?

It means a check in the trend of dollars that continue to buy less and less in clothes, in food, in homes.

It means savings—savings not only to give individual families better security, health and education but also to give the nation the indispensable resources to build factories, expand mills, develop mines, drill oil wells, and erect power plants. Savings make jobs, and are essential for the high productivity of American labor and our increasingly higher and higher standards of living.

It means—in cheaper costs to state and local governments—the chance to build more of the highways, the hospitals, the schools which are the priceless monuments of a nation prosperously at peace.

All these are our resources for the saving of freedom.

They are—in the largest sense —but some of the reasons for holding confidence in our economic future.

They are part of the answer to those who see—or pretend to see — threatening disaster in our economy, especially if the margin of defense industries is cut.

Neither American business nor American labor needs war to be prosperous.

Our population is increasing—by thousands of new-born each day—at a rate of close to 15% in a decade.

The needs and wants of Americans are increasing no less swiftly. Every American family wants more opportunity and a better and fuller life for each succeeding generation.

And our capacity to meet these needs—as we stand on the threshold of an atomic age for the good of mankind instead of for evil—is beyond the imagination of most of us living today.

As the threat of aggression recedes and our huge expenditures for defense can decline we are ready to anticipate the accomplishment of that reduction with welcome tax reduction. The reduction of taxes is a determined purpose of this Administration. The sooner it is done, the sooner the consuming community can quicken its demands upon the productive capacity of the whole nation. And the potential increase in these demands through tax relief, as fast as our defense needs permit, is the surest stimulant to continued progress and a high level of activity.

This is the kind of economy we are striving to encourage: healthy and imaginative, fortified with sound currency, confident of the prudence of its government, and ready for the exciting challenges of tomorrow. Such an economy is equipped and alert to meet—and to live by—the simple truth that America is the world's greatest unfinished business.

I remind you again: this American economy—healthy, vital, daring—is our first line of defense for freedom itself. For a fact that cannot be too often repeated is this: **America's greatest defense against any enemy is the power and potential of American mass production.**

This is indeed a plain truth. And yet general awareness of it would free us from a great deal of that kind of partisan debate which today generates more heat than light.

False Questions

We are so often confronted with ill considered questions.

We are asked: Which comes first—a balanced budget or an "adequate" defense?

We are asked: Why—in an age of such peril—should we not "defend" America by spending more billions upon more billions—upon the billions already spent?

These are false questions. They feign simplicity — and distort reality.

We know that a sick American economy would fulfill the Communist dream of conquest just as surely as disaster on the battlefield.

We know that the strictly military defense of America does not result simply from the spending of huge amounts of money. It is of much more importance to know how well planned and how efficiently the expenditures are made and how fully we get our money's worth.

Our security depends upon economic strength, guarded and directed to sustain a defense program whose worth can be measured not by its cost but by its wisdom.

We live in an age witnessing a revolution in scientific and production techniques. In such an age, the surest formula for defeat would be a static defense—committed to old-fashioned strategy —served by obsolete weapons.

There would be not defense but disaster in a military program that scorned the resources and problems of our economy — erecting majestic defenses and battlements for the protection of a country that was bankrupt and a people who were impoverished.

There would be not defense but disaster in so massive a program of arms production that our strength and resources might become exhausted and we would lose the capacity to continue the effort—so that tomorrow's threat would have to be met with yesterday's weapons.

To all those who pretend that these problems can be solved by a dramatic slogan—to all those who give the people choices between false alternatives—we say that the essential truths are simply these:

First: We know that a healthy economy is America's surest source of strength in meeting any enemy.

Second: We know that a high level of employment and indus-

*An address by Secretary Humphrey at the Preparedness Dinner of the San Francisco Republican Finance Committee, San Francisco, Calif., Oct. 20, 1953.

Notice to the Holders of:

Kingdom of Denmark

Thirty Year 5½% External Loan Gold Bonds, Due August 1, 1955

City of Copenhagen

Twenty-Five Year 5% Gold Bonds, Due June 1, 1952
Twenty-Five Year 4½% Gold Bonds, Due May 1, 1953

Mortgage Bank of the Kingdom of Denmark

(Kongeriget Danmarks Hypotekbank)
Forty-Five Year 5% Sinking Fund External Gold Bonds Series IX, of 1927, Due December 1, 1972

Under dates of February 17 and April 23, 1953, the undersigned gave notice of the setting aside of about $9,600,000 and $4,800,000, respectively, to be applied, for the calendar year 1953, to the retirement and cancellation of bonds of certain loans, as set forth in the notices of these dates.

Notice is hereby given that Denmark, in addition, has set aside a sum of about $10,500,000 to be applied to the retirement and cancellation of bonds of the above-described loans, in the amounts and in the manner referred to below, accrued interest being supplied from other funds.

Denmark has on this date published separate notice that all Kingdom of Denmark Thirty Year 5½% External Loan Gold Bonds, due August 1, 1955, that are outstanding and unpaid, have been called for redemption as of February 1, 1954. For further information, reference is made to the separate notice.

The City of Copenhagen will shortly publish separate notices that there have been drawn by lot for payment $1,500,000 of City of Copenhagen Twenty-Five Year 5% Gold Bonds, due June 1, 1952, and $1,200,000 of City of Copenhagen Twenty-Five Year 4½% Gold Bonds, due May 1, 1953. For further information, reference is made to the separate notices.

Finally, $66,500 will be applied to contractual retirement of Mortgage Bank of the Kingdom of Denmark Forty-Five Year 5% Sinking Fund External Gold Bonds, due December 1, 1972.

Unless conditions change materially, it is contemplated that funds toward the retirement and cancellation of other Danish pre-war dollar loans, still outstanding but not mentioned above, will be set aside in the first half of 1954.

MINISTRY OF FINANCE OF THE KINGDOM OF DENMARK

Copenhagen, October 27, 1953.

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trial activity is essential for the maintenance of such an economy.

Third: We know that no such economy could be assured without the health of honest money, economical government, and sound monetary policy.

Fourth: We know that a balanced but adequate defense program, fluid and imaginative, mobile and elastic, will and must be supported by whatever appropriations logic and necessity demand.

We hold these truths not as some preconceived economic axioms—or theories of which we are prisoners — but as simple, common-sense rules for achieving true national security.

Of all these truths, this Administration is deeply aware.

We are aware, no less, that the economic problems we must meet do not end at our shores.

Our trade in the world — and the world's trade with us—are essential parts of the strength all of us need to stay free. Our own industries are vitally dependent upon raw materials from the most distant parts of the earth. Our farms as well as industry need markets abroad — without which our whole farm economy could be gravely dislocated — even while many foreign nations are increasing hugely their own production of grains and other foodstuffs.

What happens in the valley of the Nile, on the plains of Turkey, or in Pakistan may affect our farms in Kansas and Iowa. What happens in Malaya or the Belgian Congo may affect our industries and our defense program.

And so our defense of ourselves inevitably involves the conditions obtaining in many areas—seemingly distant and strange, yet really vital and near.

Truths in Time of Tempest

These, too, are truths by which we must life in this time of tempest. By them we must be guided in all our judgments and actions, as the chosen servants of America at such a time.

But above all these matters, I venture to suggest that one challenge rises to tower over all others. We must provide that moral leadership, that steadfastness of spirit and mind, which alone can make us worthy of the high commission that history has conferred upon us.

We must care more for **truth** than for **success.**

We must care more for the **hopes** of the people than the **votes** of the people.

We must always worry more about our problems than the headlines.

We must scorn the glib promise, the false phrase, the shallow excuse, and the clever evasion. Let these be the devices only of those who hunger for power.

Let our ambition be but one: justice and security for America.

Born of a brave past, we have nothing to fear of the future.

If worthy of the present, the future will be ours—with a freedom of peace and productivity beyond the dreams of our fathers —worthy of the hopes of our sons.

With Hamilton Manag't

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo. — Patrick J. Byrne is now with Hamilton Management Corporation, 445 Grand Street.

Two With A. M. Kidder

(Special to THE FINANCIAL CHRONICLE)

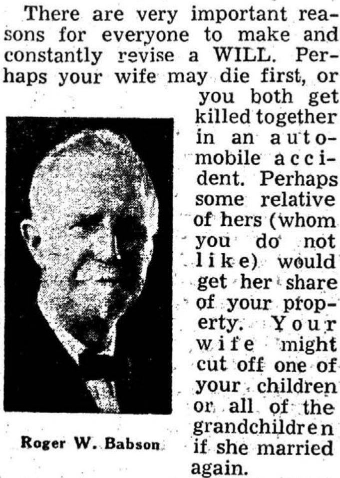
CORAL GABLES, Fla.—Morris Arkin and Charles H. Parsons have become affiliated with A. M. Kidder & Co., 380 Miracle Mile.

Wills

By ROGER W. BABSON

Mr. Babson stresses desirability of having a will executed, and gives advice as to matters to be considered by individuals in drawing up their wills.

There are very important reasons for everyone to make and constantly revise a WILL. Perhaps your wife may die first, or you both get killed together in an automobile accident. Perhaps some relative of hers (whom you do not like) would get her share of your property. Your wife might cut off one of your children or all of the grandchildren if she married again.



Roger W. Babson

If you have not made a WILL you should consult your lawyer tomorrow. **First,** find out to whom your property would go if you died now. (His answer will surprise you.) **Second,** ask him what could happen to your life's earnings and savings if your wife should marry again? (Could she cut off your own children and relatives?) **Third,** could one of your own children marry and give or loan her part to her husband to lose in some business or investment? **Fourth,** are you absolutely protecting your grandchildren?

What About Taxes?

Assume you may die tomorrow and leave, with or without a WILL, considerable property to your wife. Your estate might be liable for a heavy tax upon this. Then assume that in a few years your wife should die and your children inherit this money. This could result in a second tax. In fact, without a WILL the grandchildren might get very little.

You'd better leave your wife's share, at your death, to a Trust Company in trust for your children and grandchildren, with this provision: **So long as your wife lives, she is to have the income. At her death, your children can have the income. When your grandchildren reach a certain age** (say 26 years), **after the death of your wife and their mother, they are to gradually get the principal, as well as the income.**

Remember Relatives and Charities

Have you an aunt or cousin who was very good to you when you were young? These you can remember only by a WILL! On the other hand, without a WILL your estate could go to distant relatives whom you never knew. Remember you can easily remember these old relatives and friends by adding a simple codicil, which your lawyer can quickly draw. Do it now. Never sign any paper while in your last illness. Be sure the original of your WILL and ALL CODICILS are in the custody of a bank, with only copies in your home safe or your safety deposit box.

Why not give something to the Church which brought you up, or to some hospital or other charity? You would not live in a community without these. Then you should help them out. You can do it only by making a WILL or CODICIL. My full name is Roger W. Babson. The "W" really stands for Capt. Ward, an old Gloucester fisherman; but when people ask me for what it stands I reply "Will." I wish I could devote the rest of my life to helping people to make WILLS and CODICILS.

COMING EVENTS

In Investment Field

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. 19, 1953 (New York, N. Y.)
Purchases and Sales-Tabulating Division of Wall Street, Association of Stock Exchange Firms, Annual Dinner at the Hotel Statler.

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.

New Issue

$4,000,000

Fairfax County, Virginia

2.90% School Bonds

Dated April 1, 1953. Due April 1, 1956-80, inclusive. Principal and semi-annual interest (April 1 and October 1) payable in Fairfax, Virginia, or New York City. Coupon Bonds in denomination of $1,000 registerable as to principal only.

Interest Exempt from Federal Income Taxes under Existing Statutes and Decisions.

In the opinion of counsel named below, these Bonds, issued for school improvement purposes, constitute valid general obligations of Fairfax County, Virginia, payable from ad valorem taxes which may be levied on all taxable property within the County, without limitation as to rate or amount.

AMOUNTS, MATURITIES AND YIELDS OR PRICE

Amounts	Maturities	Prices to Yield	Amounts	Maturities	Prices to Yield	Amounts	Maturities	Yields or Price
$ 50,000	1956	1.70%	$160,000	1965	2.55%	$180,000	1973	2.85%
50,000	1957	1.80	160,000	1966	2.60	180,000	1974	2.85
160,000	1958	1.90	160,000	1967	2.65	180,000	1975	100 (price)
160,000	1959	2.00	160,000	1968	2.70	180,000	1976	100 (price)
160,000	1960	2.10	160,000	1969	2.75	180,000	1977	2.95
160,000	1961	2.20	160,000	1970	2.75	180,000	1978	2.95
160,000	1962	2.30	180,000	1971	2.80	180,000	1979	3.00
160,000	1963	2.40	180,000	1972	2.80	200,000	1980	3.00
160,000	1964	2.50						

(Accrued interest to be added)

The above Bonds are offered, subject to prior sale before or after appearance of this advertisement, for delivery when, as and if issued and received by us and subject to the approval of legality by Messrs. Mitchell & Pershing, Attorneys, New York City.

The National City Bank of New York　C. J. Devine & Co.　The Northern Trust Company

Merrill Lynch, Pierce, Fenner & Beane　R. W. Pressprich & Co.　First of Michigan Corporation　Laidlaw & Co.

Hayden, Miller & Co.　Blewer, Heitner & Glynn　J. C. Wheat & Co.　Goodwyn & Olds

October 29, 1953.

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Our Current Business Cycle

By FRANZ PICK*

Publisher "Pick's World Currency Report"

Monetary economist maintains the recent boom, which was 25% prosperity and 75% inflation of currency and credit, is now defunct, the last cycle of an expanding U. S. economy having died 10 months ago. Asserts warning signal of reversal in off-shore commodity markets in December, 1951, was overlooked by government and private economists. Denying government can "do something" to limit decline in national income, doubts we can get away with mere recession or mild depression.

According to official records, our currency has just reached its lowest level of purchasing power, not only since the end of World War II, but since the historic repudiation of the famous "Continental Dollar" in 1780.

Franz Pick

Without any doubt, the monetary policy of the last 12 years will have to take the brunt of the blame in the coming post-mortem of our defunct boom. To my way of thinking, the boom was 25% prosperity and 75% inflation of currency and credit. I said **defunct** boom, because the last cycle of an expanding U. S. economy died between the middle and the end of January of this year. Having lasted for exactly 143 months (about 12 years), from February 1942 to January 1953, it was the longest period of economic ascendance in the history of the United States.

According to Dr. Wesley Mitchell's extensive research, we had only one nine-year period of prosperity in our past, namely from 1873 to 1882. Most of our boom cycles have lasted only five to six years. This 12-year period, fathered by constant currency depreciation and prolonged by the sharp inflationary boom of the Korean War, according to the cycle was ready for a turn or bust in December, 1951. At that time, the big tendency reversal in all off-shore commodity markets began. This major warning signal was overlooked by government and private economists alike. Considered a purely technical reaction after the Korean conflict remained localized, it was (even in paper dollars) what the depression analysts of 1954 or 1955 will call the absolute end of the boom which began in 1941.

Stock Market's Attitude

The New York Stock Market, still accounting in dollars of dwindling value, did not take notice of such events when the classic pattern of cyclical termination began to develop in 1952. The central force of boom destruction was concentrated in all facts that could be summarized under the word of **inflation!**

The U. S. had reached the condition of economic overweight, because under the impact of inflation, six major components of recession had gained momentum. I would like to mention these forces:

(1) Credit Expansion.
(2) Over-Investment.
(3) Over-Taxation.
(4) Government Enterprises.
(5) Agricultural Over-Production.
(6) Metals Over-Production.

Facing these economically "apocalyptic horsemen," the Administration, fearful of further inflationary destruction, decided to raise the interest level in an attempt to practice deflation. This decision, taken in April, demolished the Bond market, broke the last boom remnants in Wall Street and cut loose, more than ever before, from our beloved prosperity. In May, the forces of contraction became even more visible.

Under the impact of official releases, speeches and worries about deficits and maturities, a test run to stop the radiation of cyclical truth was performed by the press, by market reports and, I am sorry to say, also by many security analysts. In the meantime, one of the principal psychological boom elements disappeared. The pseudo-inflationary policy of the Administration eliminated what Dr. Frederick Hajek called "the inflation fear, motor for demand." The first noticeable reduction in demand for manufactured products and commodities was apparent to the cyclical analyst as early as May and June of this year. During July, in spite of official repetion of our highest employment and earning figures, the real depression in many European, Asiatic and Australian countries, together with sharp slumps in maritime freight rates, showed the serious decline possibilities of our foreign trade, one of the most sensitive barometers of coming depression. In August, the international and domestic oil industry began to cut down on production. The steel boom ended at the same time. The real dive, still denied by the majority of leading security analysts, who have to "produce" brokerage income for their firms, had begun.

Wall Street's September Slump

In September, Wall Street slumped. The Dow-Jones confirmation of a bear market, always behind the harsh facts of economic conditions, awakened quite a number of economists from a pink dream world! Since then, many more of them have become aware of what is going on.

What's in store for us in general, and for the market in particular?

I am not an expert in Dow-Jones techniques or in analyzing securities. I am a currency analyst who has specialized in cyclical theories, for more than 30 years. If I venture to give some opinions as to the probable length of the economic decline, which we face now, I would have to give you a prolongation, if I may call it so, of the theories of Dr. Mitchell, Dr. Hajek and Dr. Wagemann, all three of whom have done outstanding world-wide research on the length of business cycles.

Building on their theories and applying them with a few of my personal research results in the same field, I would like to present to you the following three possibilities of contracting economic development, actually existing in the United States:

(1) **A decline of the national income by $10 billion** would limit the cyclical downtrend to what should be called a "mild recession," which could run its course within 13 months. This movement, terminating around Feb. 1954, could then change into an expanding cycle, or what you would call a return to better days.

(2) **A decline of the national income by $20 billion** would affect our economic structure in a sharper measure and create a multitude of problems of shrinkage, which the cyclical theory summarizes under the name of "depression." Such a condensation of negative trends, again according to theories, would need about 20 to 24 months before the expanding cycle could be resumed. That means a down-trend until Sept. 1954 or Jan. 1955.

(3) **A decline of the national income by $30 billion or more** would bring about an "economic crisis" with all the historically well known components of the 1929-1932 style. Its duration would have to be forecast at about 40 months. That would put the end of the contracting cycle towards Sept. 1956.

To my personal regret, I must already exclude possibility number 1. As it looks to me now, we should make up our minds that we cannot get away with a recession alone. It is almost certain that our National Income will decline more than $10 billion. The general belief that governments can "do something" to prevent such a development must be discarded in any historical analysis of such a problem. The teachings of cyclical movements establish the harsh fact, according to which, the "Cycle is the Government above the Governments." You read that in the Bible, in Adam Smith's and in Wesley Mitchell's works. Governments can only act once the damage has been done.

A $20 Billion Decline

If we turn to the second possibility of a $20 billion decline, I would not consider it a certainty, but it is highly probable. A miracle could prevent it, but miracles only happen in fairy tales and not in economics. Therefore, I am inclined to believe that we are in a depression, in which the slow and classic first act has already taken place. Further developments, carrying all the elements of contracting cycles are inevitable and under way. The pattern could be taken from any serious book dealing with cyclical theories. Read it and come to your own conclusions!

I think the present, yet doubtful facts, are condensed in the question, "Will our present skill and productive organizations be sufficient to limit the cyclical decline to a depression, or will we be carried into a crisis"? I still hope that when the time comes, we will be able to stem the tide of events, and get away with a depression only—thus avoiding an economic crisis because it would doubtlessly bring the sharpest structural and sociological changes into our way of life. Without any other solution, it would automatically extend government-run factories, banks, insurances, railroads and airlines; it would nationalize medicine, together with so many other now free and capitalistic activities, and would give more power to labor than ever. Such an economic crisis would have to be financed by the printing press, since a capital levy would not be sufficient to pay for the loss on taxes. It would finally decrease the purchasing power of our currency, which has already lost more than 50% since 1941.

I could continue going into the details of all existing possibilities of a contracting cycle for quite some time, but, as I am sure that you would not like the revealing facts, I can only express my sincere hope that all my predictions will not come true. I would be very happy if, in the coming years, we could continue the road to unlimited prosperity, with short declines and long rises of industrial activity, corporate profits, commodity and security prices.

So, let us see whether I will be right or wrong—as only time will tell!

*Address by Mr. Pick before New York Society of Security Analysts, Schwartz' Restaurant, N. Y. City, Oct. 26, 1953.

Dealer-Broker Investment Recommendations & Literature

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

Canadian Bank Stocks—Bulletin—Ross, Knowles & Co., 330 Bay Street, Toronto 1, Ont., Canada.

Electronics & Television—A billion-dollar infant—Booklet reprinting address by H. Leslie Hoffman, President of Hoffman Radio Corporation at the NSTA Convention, Sun Valley, Idaho, and some significant facts regarding the pattern of development for this gigantic young industry—William R. Staats & Co., 640 South Spring Street, Los Angeles 14, Calif.

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

Story of Whiskey-Making—Booklet (free where state laws permit)—Dept. 18, Schenley Distillers, Inc., P. O. Box 331, New York 46, N. Y.

Tax Savings—Bulletin discussing savings contemplated by the law—Francis I. du Pont & Co., 1 Wall Street, New York 5, N. Y.

* * *

Ajinomoto—Analysis—The Nikko Securities Co., Ltd., 4, 1-chome, Marunouchi, Chiyoda-ku, Tokyo, Japan. Also available are analyses of **Kobe Steel Works, Matuso Mining, Kansia Electric Power, Toppan Printing, Mitsubishi Metal Mining, Mitsuokoshi, Meiji Biscuits & Confectionary, Canon Camera, Meidensha, Toyo Rayon, Nippon Express, Fuji Iron & Steel, Japan Mail Steamship, Mitsui Mining & Smelting, Tohoku Pulp, Morinaga Confectionary,** and **Japan Cement,** and a tabulation of investments by foreigners in Japanese stocks.

American Cyanamid Co.—Memorandum—Hirsch & Co., 25 Broad Street, New York 4, N. Y.

Allegheny Ludlum Steel Corporation—Report—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Attapulgus Minerals & Chemicals Corporation—Discussion in "Highlights-No. 24"—Troster, Singer & Co., 74 Trinity Place, New York 6, N. Y.

Baxter Laboratories, Inc.—Analysis—Doyle, O'Connor & Co., 135 South La Salle Street, Chicago 3, Ill.

California Water & Telephone Company—Analysis—First California Company, 300 Montgomery Street, San Francisco 20, Calif.

Caspers Tin Plate Company—Analysis—Shillinglaw, Bolger & Co., 120 South La Salle Street, Chicago 3, Ill.

Central Telephone Company—Analysis—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

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

Crucible Steel Co. of America—Memorandum—Smith, Barney & Co., 14 Wall Street, New York 5, N. Y.

Froedtert Corporation—Report—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis. Also available is an analysis of **Oswego Falls Corporation.**

Theodore Gary & Company—Analysis—Gerstley, Sunstein & Co., 121 South Broad Street, Philadelphia 7, Pa.

General Motors Corporation—Analysis—Van Alstyne, Noel & Co., 52 Wall Street, New York 5, N. Y.

Longhorn Portland Cement Company—Analysis—Russ & Company, Alamo National Building, San Antonio 5, Tex. Also available is an analysis of **Texas Industries, Inc.**

McQuay-Norris Manufacturing Co.—Analysis—Edward D. Jones & Co., 300 North Fourth Street, St. Louis 2, Mo.

Mercantile Stores Co.—Memorandum—Auchincloss, Parker & Redpath, Land Title Building, Philadelphia 10, Pa.

Continued on page 45

On Request—

Our most recent "Highlights" No. 24 Discussing

ATTAPULGUS MINERALS & CHEMICALS CORPORATION

TROSTER, SINGER & CO.

HA 2-2400 Members: N. Y. Security Dealers Association 74 Trinity Place, New York 6, N. Y. NY 1-376

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Western Union—Wired For Sound Progress

By IRA U. COBLEIGH

Author of "Winning in Wall Street"

Flashing a rapid word picture of Western Union Telegraph Company, the most important and distinguished transmitter of written records on this planet; and the integrator of our military business and social life by a fabulous chain of yellow blanks.

We've gone along for years taking Western Union for granted—as one of the facts of life—without realizing, in the least, its vast and continuous impact on our daily routine. If somebody has a baby, a telegram tells us; if a union (not Western) calls a strike, or calls it off, the official order to members is usually a telegram; if you're away from home and short of dough, you wire for it. Western Union transferred $2⅔ billion this way last year. If you've got a birthday, Western Union will sing you a greeting; the radio bleep telling you the right time each hour is a WU product; and when Winchell gives you the pitch coast to coast on Sunday nights, his sensational thumb is on a telegraph sender. Yes, in sickness or in health, in promotion or adversity, from here to infirmity, Western Union delivers the score.

Ira U. Cobleigh

Let's go back a bit. When, on April 1, 1851, there was created the New York and Mississippi Valley Printing and Telegraph Company, although the date was April First, the company wasn't fooling! It consolidated 13 of the little companies then operating between the seaboard and the Great Lakes into one functional company providing uniformity and efficiency of service and standardization of rates. Five years later, it was renamed by Ezra Cornell (who parlayed a telegraph key into a university) Western Union Telegraph Company, under which moniker it has become a national institution.

Earlier, it is true that Samuel Morse had invented the telegraph and made a pitch to Congress for government acceptance and financing of lines. But while Congress took note of his invention, they thought it a slight and passing fad and denied financial support. Thus from the outset the telegraph industry has been private enterprise—all the way—and has far outpaced all those government subsidized telegraph systems operating abroad. Today a third of the world's telegraph mileage is in the U. S. We are wired for sound and for send!

Telegrams by the thousands were transmitted in Morse Code, an animated Tom Tom ticking out the orders of business, and the news, and greetings of society. Then came the Civil War and the Western Union role in it has probably never been adequately appreciated. For in 1861, eight years before the first transcontinental railway, there was hooked up a coast-to-coast telegraph line which, from the day of its completion, grounded the famous Pony Express which had hitherto carried WU messages from St. Joseph, Missouri, to Sacramento, California, a distance of 1,400 miles. WU wires brought in 1861 to the White House in Washington (1) affirmation of Union loyalty from Kansas and California, and (2) allocations of gold and silver from the west to finance the war between the States. Indeed, WU played a vital, if not an indispensable part, in the welding of the Union, and today dozens and dozens of towns and cities in the Middle and Far West owe their founding and growth not to railway progress but because a vast conga line of telegraph poles had strung a route and marked waystations on the road to the golden west.

And so, starting from the merging of 13 little lines in 1851, there has grown up in our midst the vast corporate creature we know today—Western Union Telegraph Company, a merger through the years of 540 separate companies into one highly functioning unit, dedicated to an efficient, integrated service, providing rapid dispatch and low cost message service to the people of America—and culminating in 1943 in the merger of Postal Telegraph with Western Union.

At first it would seem that that merger set the stage for complete consolidation of Western Union's public service functions but such opinion would be in error. For Western Union still has a formidable competitor in the private lines and teletype of American Telephone and Telegraph, which do a $67 million a year business; and has yet to work out the overseas cable confusion whereby there are still 13 separate international communication systems.

About the first, namely AT&T, WU had in 1943 a proposal for taking over its (AT&T) TWX and leased wire facilities but the war and greatly expanded labor costs in 1945 so lowered the WU treasury that funds to finance merger evaporated. Now, however, a joining of WU and the private wire systems of AT&T has been discussed anew. A Senate Subcommittee has stated that this merger is "the only course acceptable in the public interest." Logic suggests that such a merger will, in due course, emerge! But nobody knows the price tag on the AT&T package.

Another thing we ought to talk about here is the demise of the dot and the dash. In 1910, 90% of WU business was coded by Morse; while today 95% of all telegrams are by printing and facsimile methods, where the words are printed in their native form. By now the Morse Code has been virtually relegated to the Boy Scouts!

Fabulous new techniques have been developed such as (1) Facsimile Telegraphy for sending and receiving messages in picture form, (2) the Teleprinter which types a message out on a typewriter hundreds or thousands of miles away, (3) carrier systems which can send 288 messages simultaneously on a single pair of wires, (4) High Speed Fax, which can transmit 3,000 words a minute—a whole 90 page magazine text in an hour, (5) Intrafax, for facsimile messages deployed within private business organizations, and finally (6) Beam telegraphy, which sends like TV, does away with the traditional telegraph pole, and can handle 2,000 simultaneous messages.

It would be a mistake not to stress those fields in which WU has most significantly progressed, for the big growth element in WU is not in its day and night messages (of which there were over 200 million sent in 1952) but in private and facsimile wire services which it rents out in increasing volume and at an expanding rate of profitability. For example, WU private wire systems are today rented by General Electric Co., U. S. Steel, United Air Lines, Sears Roebuck, The Bank Wire, and Civil Aeronautics Authority; plus two systems operated by the United States Air Force and many others.

Desk Fax, WU's miniature facsimile telegraph, a press button and instantaneous sender and receiver of telegrams in picture form, is now found in the offices of more than 10,000 firms, and this number is growing with each passing day, and each flashing visual message.

700 stations give the official weather, and WU correct time is continuously beamed to 64,000 electrically regulated clocks from coast to coast. Add to these electronic-type services the faithful courier rounds of 10,000 odd messengers in the delivery of messages, flowers, gifts, money, brochures and circulars, and you get some idea of the versatility of WU. 3,500 quotation tickers serving 22 exchanges, clack the changing quotes in our fabulous markets to cities all over the land.

Altogether, 1,250,000 miles of wire, 2 million miles of carrier equipped circuits, 30,000 offices and agencies and 43,000 employees spell Western Union.

On the financial side, WU earnings have been definitely spotty in the past decade, due partly to a murderous rise in labor costs in 1945, and a long strike in 1952. Now under the stability of a two year labor contract and benefiting from the heavy postwar mechanization of its operations, WU holds its head high and looks forward to a new horizon of progress—and profit.

1953 gross should top $210 million, and earnings of as much as $7 a share have been projected on the 1,230,000 common shares listed on NYSE. That would be nice coverage for the current $3 dividend, and might even suggest that WU, at six times indicated earnings, has not been overly inflated market-wise.

The message about Western Union today appears more heartening than at any time in years. WU is wired for sound progress, and getting sounder all the time.

Midwest Exchange Open Election Day

CHICAGO, Ill. — The Midwest Stock Exchange announces that the Exchange will remain open for business on Tuesday, Nov. 3, 1953, while the New York markets will be closed due to local elections.

Orders will be executed in both the local and dually listed issues, but the customary practice of executing odd-lot orders in the dually traded stocks on the New York sale price will be suspended for the day. Odd-lot orders in those stocks will be executed on the basis of round-lot sales in the Midwest market.

With Professional Service

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Otto C. Zink has become connected with Professional Service Plan, 1122 Crenshaw Boulevard. He was previously with Cantor, Fitzgerald & Co., Inc.

Joins Davies Staff

(Special to THE FINANCIAL CHRONICLE)

SAN MATEO, Calif.—Feodor O. Schmidt has joined the staff of Davies & Co., 100 Benjamin Franklin Court.

Joins Revel Miller

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif. — John W. Arnold has joined the staff of Revel Miller & Co., 650 South Spring Street, members of the Los Angeles Stock Exchange.

Lehman Brothers Financial Consultants For Conn. Expressway

Governor John Lodge of Connecticut, in his capacity as Chairman of the Connecticut Expressway Bond Committee, has announced the appointment of the banking house of Lehman Brothers of New York to assist in the financing program of the Connecticut Expressway. This modern highway will connect with the New York State Thruway at Greenwich and cross the State of Connecticut to the Rhode Island line at Killingly, a distance of 125 miles.

The road is estimated to cost in excess of $200,000,000 and tolls will be charged to make it completely self-supporting although State gasoline taxes are pledged as an additional margin of safety to the bonds. This pledge will enable the State to obtain the highest possible credit rating and the lowest possible interest cost on its bonds. Present plans call for a bond sale of some $50 to $60 million early next year.

The relocation of U. S. Route One, in sections which will become a part of the new expressway, is already in progress and rapid strides are being made for the planning and construction of several sections in the near future, Highway Commissioner G. Albert Hill said. Mr. Hill believes it will be "the finest and safest road" of its type to be built.

Lehman Brothers had an important part in financing the $285,000,000 New Jersey Garden State Parkway and the $500,000,000 New York State Thruway and many other projects of this type.

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FRAMINGHAM, Mass.—Fred A. Campbell is with Renyx, Field & Company.

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U. S. and the World Economy

By ROY L. REIERSON*
Vice-President, Bankers Trust Company, New York

Calling attention to pace of foreign recovery, Dr. Reierson lists as basic problems ahead: (1) competition for world markets; (2) the future of foreign aid, and (3) the pull of East-West trade. Sees almost every phase of economic policy linked to the international political predicament in which the world is enmeshed, and holds this has vital bearing upon U. S. responsibilities. Concludes international flow of capital must be greatly increased if economic and political position of free world is to be strengthened.

When American businessmen and economists take their readings of the economic barometer, they usually give only scant attention to conditions and prospects outside the United States. The reasons for our preoccupation with domestic affairs are fairly obvious. For most industries, by far the most important markets are here at home. Furthermore, although some companies and industries meet with competition from abroad, foreign competition on a broad scale has not been a factor in our markets during the past 15 years. And since our monetary reserves are so abundant, we are able to adopt a rather detached attitude with regard to our balance of payments position. This is in striking contrast to foreign countries, where the balance of payments must usually be watched with care, and where export markets are of vital importance.

Roy L. Reierson

Assuredly, thanks to the great wealth of our natural resources, the magnitude of our industrial capacity, and the breadth of our domestic markets, the United States economy is far less sensitive to fluctuations in international trade and finance than the economies of most other countries. Nevertheless, the traditional concentration of our thinking upon domestic affairs is not wholly realistic, particularly since the current world struggle between two basically different and irreconcilable philosophies may shape our political and economic fortunes for many years to come. The experiences of the past two decades have demonstrated that conditions, trends and problems of the major countries abroad, especially in Western Europe, are of profound importance to the United States, especially since our leading role in world affairs has brought us enhanced responsibilities which greatly affect the state of our own economy.

*An address by Dr. Reierson before the National Commercial Finance Conference, New York City, Oct. 27, 1953.

The Pace of Foreign Recovery

Recent developments abroad have been moderately encouraging. The Western European economy as a whole has made important progress, and the general level of business activity appears satisfactory. As in the United States, industrial production has been supported by expanding defense programs and the continuing high output of heavy industry. There is no troublesome unemployment except in Italy, where it is chronic, and in France, where economic progress has lagged. In Western Germany, on the other hand, the advance has been particularly impressive, and production continues to surge upward.

Reflecting this improvement in production, inflation in Europe has been brought to a halt, and the Western European price level in the aggregate has remained generally unchanged for some time. Credit policy has been revived, and every country in Western Europe has developed measures designed to restrict credit if inflationary pressures should reappear. At present, however, demands for bank credit are modest, and money markets in most countries are fairly liquid.

With production well sustained and inflation under control, most countries have been able to add significantly to their monetary reserves. Total foreign holdings of gold and dollar liquid assets have increased substantially, especially since the middle of 1952, and are now estimated at $21-$22 billion, or about equal to the monetary gold stock of the United States. This growth in foreign monetary reserves has been assisted by high United States imports, reflecting our boom production rates. Furthermore, our commercial exports have declined as the greater abundance of world supplies, especially of agricultural products, has enabled world buyers to meet their needs elsewhere than in the United States.

In appraising these achievements, however, it is important to observe that they were attained with the help of an extraordinary combination of circumstances. They represent the results of eight postwar years of economic relief, reconstruction and other foreign aid programs of the United States adding up to the huge total of $40 billion, coupled with a business boom in this country which for length and strength has no precedent in our times. Even so, recovery abroad has been uneven, and many essential goals have yet to be attained. Government budgets, for instance, remain unbalanced; currency convertibility and some exchange rates still pose major problems; import quotas and other quantitative restrictions upon the flow of goods are still all too common; and the international flow of capital has yet to be satisfactorily restored. The very real prospect is that, unless some fundamental problems are solved, the recent economic improvement may prove to be only a breathing spell in what is still an exceedingly vulnerable situation.

Basic Problems Ahead

This limited degree of economic progress is disconcerting, since the international economy may be facing an environment less conducive to rapid recovery than that which has prevailed in recent years. Wtih the growth of world production, world markets are becoming increasingly competitive, the business boom in the United States seems to have passed its peak, and it is generally agreed that our foreign aid programs cannot be continued indefinitely without seriously jeopardizing the economic self-discipline of the beneficiaries. Thus the crucial question is whether the world economy has gained sufficient strength and self-reliance to meet the many problems ahead in the foreseeable future.

Competition for World Markets—Indications around the world are that practically every line of business will become more competitive. Many Europeans point to the rapid postwar expansion of productive capacity throughout the world, and especially the growing economic potential of Germany and Japan. In particular, there is virtually unanimous agreement that the outlook for heavy industry (e. g. transportation equipment, electrical equipment and industrial plant) is more uncertain than at any time during the postwar period, and that keener competition lies ahead. As a result, there is a growing international awareness of relative production costs, and producers in some countries are already pointing with some apprehension to the lower wage scales of their neighbors.

These indications of an increasingly competitive environment in foreign trade raise some disturbing questions regarding the prospects for exchange stability and more liberal trade policies in the world. It is evident that a decline in Western European business activity would greatly aggravate the current fiscal and monetary problems of all countries concerned; some countries may be tempted to revert to more restrictive trade and exchange practices in order to offset foreign competition.

The American Market — Another troublesome feature in the current situation is the critical dependence of foreign countries upon sustained high economic activity in the United States. The Western European economies appear precariously balanced; even a minor decline in business may inhibit further progress toward international stability. There is a general conviction abroad that even a modest economic downturn in the United States, say of the proportions of the 1949 adjustment, would have the most serious repercussions throughout Western Europe.

Foreign trade assuredly is very sensitive to fluctuations in the American economy. Thus, between the second half of 1948 and the comparable period of 1949, when our gross national dollar output showed a decline of no more than about 3%, the dollar value of our imports dropped by about 10% and imports from Europe fell off by some 20%. The concern of Western Europeans over our economic activity, therefore, has a real basis in past experience.

A business downturn in the United States in the period ahead would doubtless be accompanied by a reduction of our imports, especially of raw materials for business inventories; as a result, fewer dollars would be earned by the rest of the world from this source. If the decline in our imports is modest and not too protracted, the $21-22 billion of gold and short-term dollar assets in the hands of foreigners would provide a cushion; the economies of Western Europe are probably in a better position to withstand some easing of business activity in the United States than they were four years ago, when our business downturn contributed to the wave of currency devaluations in September, 1949. However, even a mild business downturn here would greatly enhance competitive pressures in foreign trade; furthermore, there is no assurance that future cyclical fluctuations in the American economy will be as moderate and short-lived as was the case in 1949.

Foreign Aid—Much of the recent improvement in the financial position of Western Europe reflects the large and continuing programs of United States foreign aid. In the immediate postwar years, our foreign aid largely took the form of direct relief through shipments of foods, textiles and other consumer goods. In the second stage of our foreign aid programs (from about mid-1948 to mid-1950), the assistance took the form of assistance in European reconstruction and rehabilitation. In the third stage, after the outbreak of the Korean War, economic aid was succeeded by the current program of military assistance.

Despite the checkered nature of the programs, the amount of expenditures for foreign aid has shown substantial stability throughout the postwar period and has averaged about $5 to $6 billion a year. Expenditures are likely to remain around this level for some time to come. In the current fiscal year, for example, outlays are likely to total about $6.0 billion, compared with $5.8 billion in the fiscal year ended June 30, 1953. Expenditures under the military aid program are increasing, both in absolute and relative terms, and will probably account for about 80% of foreign aid outlays in the current fiscal year.

The determination of future policy regarding foreign aid awaits the results of studies now in progress. It seems fairly obvious that foreign countries will continue to benefit from substantial amounts of United States aid for some time to come. As long as the cold war persists, it will be necessary to continue our military assistance in order to build up the defenses of the free world. However, it is apparent that foreign aid cannot be extended indefinitely for the purpose of supporting foreign economies. Barring another international emergency, it seems likely that foreign aid outlays are at their peak and may decline after a year or so.

Many Europeans agree to the desirability of reducing American economic aid. In part this may reflect an awareness of the political and fiscal realities in this country, but beyond this it probably is based on a recognition that continued aid is as destructive of morale and self-discipline of nations as of individuals. The principle of "trade not aid" seems to be generally accepted abroad, but it is coupled with a plea for increased foreign lending on the part of the United States as well as for a liberalization of American commercial policy. On balance, however, these latter objectives will probably not be achieved to the extent needed to offset the effects of the prospective decline in our foreign aid. Thus a decrease in our foreign aid programs, particularly if accompanied by some easing of business activity in the United Stases, would further complicate the task of the European countries in building up their monetary reserves and progressing toward currency stability, convertibility and liberalization of trade.

The Pull of East-West Trade—These prospects appear sufficiently unfavorable to warrant real concern even in the absence of the East-West split that pervades the world. Today, the difficulties are compounded by the low level of trade between Eastern and Western Europe. Several observers abroad emphasize that the economic problems of Western Europe cannot be solved without a resumption of trade with the countries behind the Iron Curtain. They point out that the present inability of Western Europe to obtain food and raw materials from the East seriously adds to the drain on Europe's dollars, since these commodities now must be purchased from the dollar area. Furthermore, they stress that the markets in the East must be tapped if the industrial capacity of Western Europe is to be kept fully employed.

Clearly, there is considerable economic pressure for the reopening of trade between the East and West. Thus the ground is fertile for proposals by the Russians designed to relax trade barriers. Also, these factors, together with the widespread budget difficulties, help to explain the general lack of enthusiasm in Western Europe for a really forceful rearmament effort.

While the economic problems of Western Europe, though serious, are probably not beyond remedy over time, the disturbing fact thus is that almost every phase of economic policy appears in some way linked to the international political predicament in which the world is enmeshed. This not only greatly complicates Europe's economic recovery, but also has a vital bearing upon the responsibilities of the United States.

The Role of the United States

The key role of the United States in world trade and investment activities makes it evident that the policies and measures we adopt will have an important bearing upon the course of the international economy. After having contributed since the end of World War II on a large scale to the economic resources of Western Europe, we are now faced with the even more difficult assignment of formulating constructive and politically acceptable trade and investment policies for the future.

Foreign Lending — Revival of international lending is generally regarded as a basic prerequisite to the expansion of the world economy. The potential market for capital equipment throughout the world is described as tremendous; it is pointed out that demands of underdeveloped areas for such goods would suffice to keep the industries of the free world busy for decades ahead, but that these demands cannot materialize unless long-term capital is made available.

An important obstacle to the revival of foreign lending and investing is the scarcity of avail-

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The Shape of Business Now

By COURTNEY C. BROWN*
Assistant to the Chairman, Standard Oil Company (N. J.)

Pointing out there is always uncertainty about the future of business, economist of leading industrial concern discusses measurements used to indicate economic fluctuations. Stresses difficulties in interpretation of business indices, and upholds exercise of caution in anticipation of downward business trend. Finds reason for caution lies in: (1) high level of defense expenditures; (2) length of prosperity boom, and (3) upward trend of money rates, but concludes "there is no compelling reason business necessarily should turn downward." Lists as among vulnerable sectors of the economy, urban housing, automobile production, and the construction industries.

There is always uncertainty about the future of business. There is always some concern regarding the consequences of future business change. But it is not often that greater uncertainty or more concern is felt than at present. Many are puzzled. Vague fears are occasionally expressed regarding a possible return to the dismal days of the Great Depression. The anticipated political consequences of even mild business contraction have made the political officeholders jumpy. The international overtones of a severe decline in business activity worry those charged with achieving strong military and political cohesion in a world of tension.

C. C. Brown

One thing is clear. Profound changes have occurred in the structure of American business since the ravaging days of the Great Depression. Past experience is unlikely to be a reliable guide to the future. Business analysts today must be careful lest they find themselves in the role of bygone generals, prescribing for the future on the basis of past wars.

The question usually takes the form "Are we going to have a business recession?", or perhaps the word "depression" is used. The question thus stated is not adequate. We have already had quite a number of recessions. Ask the men in the textile or motion picture businesses, or perhaps in the agricultural implement business. Each of them could provide considerable evidence of recession during recent years from his personal observations.

Business Indices

The question more precisely stated is whether the level of over-all business activity may contract sufficiently to cause concern or actual distress. Progress has been made in developing means to measure this condition, although some time lag is involved. There are four such measurements usually used, sometimes along with, but more frequently in combination: employment data of the Bureau of Labor Statistics, industrial production indexes of the Federal Reserve Board, retail trade data of the Department of Commerce, and the price series of the Bureau of Labor Statistics. The gross national product figures are in a sense a reflection of these data.

Each of these four measurements — employment, industrial production, retail trade, and prices —has to be handled with a good deal of care. For example, employment has remained high all year, and unemployment has stayed close to record low levels. But changes in the employment figures tend to lag behind changes in the average number of industrial hours worked per week, which incidentally have been declining most of this year. Unemployment figures can be cushioned by many factors, including such things as students returning to their fall school programs, or women leaving the working force. In other words, the fact that both employment and unemployment figures are still highly favorable may not be an entirely reliable indication of the over-all level of current business activity.

Care has to be exercised also in reading the significance of changes in the industrial production, retail trade and price series. The production of non-durable goods has held firm or improved in the past year, whereas the production of durable goods for both capital and consumer needs has tended more recently to decline. Some of the numerous retail sales series have done better during the current year than others. Data relating to total retail trade are pretty slow in arriving. Prices likewise behave differently at different levels. Wholesale prices have tended to drift downward for nearly 2½ years, since the middle of 1951, whereas consumer prices have remained near their ceilings during most of this year. Indeed, they have risen slightly to new highs in the last 12 months.

Difficulties of Statistical Interpretation

Although these and other difficulties lurk in the interpretation of the four series typically used to measure total business activity, it is fair to say that so far in the current year, the aggregate of business adjustments has not been sufficient to influence seriously these measurements of total activity. That confirms the feeling of people that so far at least we have not had a serious over-all set-back. But it has not removed the uncertainty and the concern.

Unfortunately, this is a situation that has led some to the conclusion that all we really need to do to prevent a significant adjustment in the level of total business is to stop talking pessimism and "preach" optimism. Then everything will be all right. Yet past attempts along these lines have proved to be quite ineffectual, and indeed may have been harmful. The mere fact that so many people have had the prospect of some business decline firmly fixed in their minds may itself prove to be something of a safeguard. Businessmen, by the very nature of their activity, attempt to anticipate events to come, and some of the recession expected for next year may now be taking place simply because actions are being taken now to fortify business firms in their financial strength, their manufacturing efficiencies, and their sales departments. We know only little about the causes of business cycles, but those who have studied them the closest are inclined to feel that contraction is basically the result of previous excesses. Next year, in retrospect, we may look back and be grateful for the exercise of caution in 1953.

Reasons for Uncertainty

If current business is still pretty good, why has the uncertainty and the concern about the outlook been so persistent? Here again, it is not possible to give a precise answer. Perhaps in part it is because the end of the Korean War coincided with a more frugal administration of our defense program, leading people to believe that a substantial decline is in prospect for military outlays. Yet that could hardly be the real reason. Defense expenditures have risen very little for the past year or so, and the Secretary of Defense himself is authority for a decline of only $2 billion in such expenditures next year.

Perhaps it is because the nation has lived through one of the longest periods of sustained prosperity in its history and there is a feeling that all good things must come to an end. Starting in 1941 with the Arsenal of Democracy concept, and carrying through the war, the post-war replenishment of capital and supplies, and the Korean and cold war military programs, the country's business has been drinking strong and heady wine for some 12 years. There can be no doubt that war-induced and war-like activities have been one of the boom-sustaining features of the long continuing prosperity; and a termination of the rate of expansion in such activities is significant even though they may be sustained at a high level. It is interesting, however, that when the rate of expansion of military outlays began to decline, as long ago as the fourth-quarter of 1951, the civilian sector of the economy, even after years of high level activity, more than picked up what otherwise might have been the slack. The boom for the past year or so has been more a private boom than a defense boom. It has been accompanied by an extension of the rapid increase of debt, especially installment debt and urban mortgage debt. As a result, we may have gone far toward filling, at least temporarily, the most pressing needs of both consumers and of business firms.

Firming of Money Markets

Perhaps a firming of the world's money markets in the past year or so is another reason why people insist upon retaining their sense of uncertainty and of concern. But here again, tighter money can hardly be the whole answer, for both in this country and abroad, money rates have tended to ease somewhat since last summer.

On all three counts—the level of defense expenditures, the length of the prosperity boom, and the trend of money rates—there is room for caution yet no compelling reason why business necessarily should turn strongly downward. The answers as to why people are so worried seem to lie elsewhere. Perhaps it is the specter of past depressions. Perhaps it is a failure to comprehend, or a lack of confidence in, the structural supports that have been built into the economy during the past quarter century.

Individual Industry Adjustments

In recent years, we have had a number of successive adjustments in individual industries. While each of these has been important to those involved, none have been sufficiently important to bring down the level of total activity which has remained high except for the general inventory contraction of 1949. There seems to be gathering evidence at present, however, that the peak of the current year's business may have occurred in the second quarter, and that we have had a creeping over-all contraction subsequently. Moreover, as we look at each major industry, as well as at some of the financial characteristics of the present situation which cut across all industries, it is difficult to rule out the probability that still further adjustments may lie ahead. The shape of business as we look ahead from the vantage point of October, 1953, appears to be somewhat like the cross section of a shallow saucer, but it could be a rather large saucer. The basic question in judging this probability is whether the individual industry adjustments that are yet to come, by coinciding, will involve a sufficiently large segment of the nation's total business to affect seriously the four measures of total activity—employment, production, retail trade, and prices. A second question is contingently related to the first. If a business recession thus measured does occur, how far will the decline go, and how long will it last? An examination of several important fields of activity may provide a tentative answer to the first question. A look at a number of the structural supports already in place in the economy may throw light on the second.

There are four major sectors of the economy that may now be particularly vulnerable, and to the extent their adjustments may coincide, instead of merely adding to each other, it is entirely possible that they could aggravate each other. Two of these sectors —urban housing and automobiles —are influenced most by consumers' decisions; two others — expenditures for plant and equipment and expenditures for inventories—are related to business decisions.

Since the war, new housing in the United States has been built at unprecedented rates. Indeed, in the eight post-war years through 1953, the number of new housing starts will have been three times as great as in the eight years preceding the war. At the same time, a great deal of work has been done to improve and enlarge existing structures. Family formation has likewise been very rapid in the postwar period, but the occupancy ratio

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*Address by Dr. Brown before the National Farm Credit Directors' Conference, Houston, Texas, Oct. 27, 1953.

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The 1953 Stock Market And the Future Trend

By JUSTIN F. BARBOUR*
President, Barbour's Investment Services, Inc.

Mr. Barbour discusses the pattern of the 1953 stock market, and ascribes its change of direction to reduced demand for stocks, accompanied by an end of the inflationary boom. Lists prevailing deflationary forces and holds a bear market is likely to continue until a lower level of business has been reached. Says "many months will pass before another worth-while bull market gets under way."

Every few years, a change occurs in the major direction of the stock market. Probably the two best remembered major changes are the 1929 decline, and the 60-day July-Sept., 1932 near perpendicular 80% rise of the Dow-Jones Industrial Average. To a lesser degree, we recall the major declines that stemmed (1) from March, 1937, following a 4-year and 8-month rise; (2) from Sept., 1939, following a brief, abortive bull pattern which now appears to have been caused by pre-World War II tensions; and (3) from May, 1946, following a 4-year and 1-month bull market. We also recall the major advances that began (1) in the second quarter of 1942, following a 31-month decline; and (2) in mid-June, 1949, following three years of sidewise movement. This year, after 3 years and 6½ months of major advance, another change of major significance has occurred. Whereas the market was at its 9-month *high* in the third quarter of 1950, 1951, and 1952, it was at its 9-month low in early September of this year.

I want to establish first the market's major direction, and then to discuss the significance of, and possible reasons for, its 1953 action. I think the practical interest at present is in the probable major direction of the market for about a year or more, rather than in a number of interesting, but noncontrolling factors. The holders of textile shares have seen their prices approximately cut in two, on average, since early 1951. Because "soft spots" appeared in the textile industry, a decline started from what must now be considered excessive bull market prices. While it is generally recognized now that there has been over-expansion in the industry, sufficient adjustments have not as yet been made to correct the problems. This is not to imply that the adjustments in other industries need be, nor will be, as severe. However, it is a recent example of what can develop out of a "soft spot."

There are times when investors and speculators prefer to liquidate, rather than buy, common stocks even though they appear to be very attractively priced by many standards. While the Federal Reserve Board Index of Industrial Production rose from 103 as of August, 1939 to 140 for December, 1940, and to 176 for December, 1941, the Dow-Jones Industrial Average declined from 155.92 in August, 1939 to 106.34 in December, 1940, and to 92.92 four months later. The stocks comprising the Average reported net earnings of $9.11 for 1939; $10.92 for 1940; and $11.64 for 1941; and dividends increased from $6.11 in 1939; to $7.06 in 1940; and to $7.59 in 1941. The yield on the average was 4.06% on Dec. 31, 1939; and 6.84% at the end of 1941. Yet, even with these excellent earnings and yields, stock prices declined for reasons that became obvious with the kind of economy and tax bill that followed the attack on Pearl Harbor.

Stocks rise most of the time in bull markets, and to successive new highs. Once or twice in each bull market year, there is a substantial decline, either as an aftermath of a period of intense speculative activity, or as a result of a surprising piece of disturbing news. The outbreak of the Korean War on June 29, 1950 was such a piece of news, and as you will recall, was followed by a sharp and substantial decline.

The important declines in bull markets are usually but a few weeks in duration, and hardly ever retrace all of the preceding primary advances. For example, in the 1949-53 bull market, the decline caused by Korea fall 4½ weeks from top to bottom, and culminated at the early January, 1950 low of the Industrial Average. Three months later, both the Industrial and Rail Averages were at new highs for the bull market. The next really important decline occurred in the Rail Average. From its June 29, 1950 low of 51.24, the Rail Average advanced 75.8% to 90.08 on Feb. 5, 1951. Over the balance of the first half of 1951, the Rail Average retraced 45.54% of that rise. However, by August, 1951 for the Industrial Average, and March, 1952 for the Rail Average, new bull market highs had been recorded. To the first of this year, each succeeding important rise and subsequent decline of the Averages recorded both higher highs and lows. This was the market's pattern from June 13, 1949 to Jan. 5, 1953.

The Stock Market Pattern Changed this Year

Had that pattern continued, there would have been general agreement that the major trend of the market was still up. As has always happened in the past, however, the pattern changed. The first variation from the 3½ years of major advance occurred this year, when the January-June decline of the Averages retraced all of the October, 1952-January, 1953 rise of the Industrial Average; and 84.36% of the September-December, 1952 primary rise of the Rail Average. Such declines have occurred in the past in the initial phase of a bull market, but they have never occurred to this extent in both Averages in the advanced stages of a confirmed bull market, with major advance continuing thereafter.

The next deviation from the 1949-53 pattern was that average volume of trading on this year's declines exceeded average volume of trading on the subsequent recoveries. Bull markets run so long as there is an increasing and sustained demand for stocks in excess of offerings. In June, 1949, when the major trend changed from bear to bull, volume averaged 807,636 shares daily. In December, 1952, the last month of rising prices, daily volume averaged 1,830,000 shares. Since then, volume has been receding, except for periods of sharp price declines. Ordinarily in a bull market, average daily volume recedes as a drawn-out decline culminates, and expands as the ensuing rise gets under way. This volume characteristic of a bull market has been reversed, for in the five-week *decline* preceding the first half 1953 *low* of the Industrial Average, daily volume averaged 1,300,880 shares. Its highest five-week daily average on the subsequent rise into mid-August, however, was only 1,018,400 shares. This was a "straw" indicating an insufficient demand for stocks to carry the Averages to new highs for the bull market.

The Failure of the Market to Hold A Six Months' Low

The completed declines of secondary proportions that occurred between the Summer of 1949 and Oct. 22, 1952, were followed by rises that continued, subject to sell-offs of intermediate proportions, until the Averages were in new high ground for the bull market. This summer, the market's 1949-52 pattern changed. Had the rise that followed the January-June decline continued until the averages were above their 1952-53 highs, it would have meant that major advance was still valid. However, instead of the advance from the June lows continuing into new high ground for the Averages, the Rail Average retraced 64.63% of its six-month decline, and the Industrial Average 44.84% of its comparable decline, before the market turned down in mid-August.

The bull market high of the Rail Average was recorded Dec. 22, 1952 at 112.53, and its recovery peak on July 8 at 107.95. The bull market high of the Industrial Average was recorded Jan. 5, 1953 at 293.79, and its recovery peak on Aug. 13 at 276.74. Eighteen days after the Industrial Average had recorded its recovery high, both Averages closed at new lows for the year. Still lower prices were recorded Sept. 11 and 14.

The near prospect of a Korean Truce and the end of hostilities stimulated the March-June phase of the January-June decline. In the light of that news, the decline was not great. The August-September decline occurred under entirely different circumstances. There was no news to account for it. The Rail Average declined 16.41 points in its 39-day August-September decline, which was 26% more than its 12.95-point 5.6-months' decline from Dec. 22, 1952 to June 9, 1953.

Why Has the Market Changed Its 1949-52 Pattern?

While there are a number of possible reasons for the change in the market's major trend, the one obvious reason is that there has not been a very great demand for stocks generally. If there had been, the buying orders would have absorbed all of the stock that pressed the market before it declined under its June low. Also, there would have been more orders at rising prices, than stock offered for sale, with the result that any decline in the course of the summer rise would have culminated above the June lows of the Averages.

There have been no more restrictions on either investors or speculators buying stocks this year than there were in 1952, 1951, 1950, and the last half of 1949. There has not been a dearth of available funds. Savings are sizable this year. Money continues to pour into pension and profit sharing funds, and into investment trusts. It has been widely expressed that stocks are very attractively priced in relation to both earnings and dividends, and that net earnings will benefit next year from lower tax rates. Yet, the pressure of stock on the market has been greater than the average demand. It is one thing for a market to sell off sharply either as the result of a great speculative rise, or because of a very adverse development. It is an entirely different matter for a market to plot a downward pattern for eight or more months for little apparent cause.

Anyone who is perplexed about the market's decline should endeavor to determine why invest-

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*An address by Mr. Barbour before the Chicago Chapter of the American Statistical Society, Chicago, Ill., Oct. 15, 1953.

Pensions a Stabilizing Factor if We Have Increased Productivity

By MARCUS NADLER*
Professor of Finance, New York University

Dr. Nadler points out pensions and profit sharing, though important facets of general trend toward equalization of income distribution, would lead eventually to a lower standard of living, unless there is a commensurate increase in productivity of machinery and labor.

Pensions and profit-sharing stem from two different motives. The first reflects the desire for economic security, greatly accentuated by the depression of the '30s. The latter is an effort to create increased incentive among business executives and employees and to keep highly qualified personnel from seeking larger rewards elsewhere. Both devices represent an important facet of the general trend toward a slow but steady equalization of the distribution of national income.

Marcus Nadler

The economic consequences of pensions are bound to be far-reaching. The adoption of pension plans is spreading very rapidly and in many instances is coordinated with the social security program of the Federal Government. Since the span of life is steadily increasing, the number of pensioners is bound to increase materially in the future. Also, the birth rate is high, and the rapid increase in the number of pensioners and children will create a situation in which a growing number of people will be consumers without being producers. If this trend is accompanied by an increase in productivity of machinery and labor, it will be a powerful force in stabilizing the American economy since it will provide the necessary consumers to absorb the steadily expanded output of American fields and factories. If, on the other hand, it is not accompanied by an increase in productivity it is bound to lead to a lower standard of living, which is determined primarily by the amount of commodities and services available for consumption.

Pension funds and other social security measures adopted during the past few years have materially increased the economic security of many families. This in turn leads to a greater willingness to spend current income and to mortgage the future. Increased security has undoubtedly contributed to the growth of consumer credit and to home-owning based primarily on amortized mortgages. These trends, also, if they do not go too far, are developments in the right direction. The widespread adoption of pensions has also contributed substantially to the growth of institutional savings, which assures a steady flow of capital to American business. This too will make for greater stability of the economy in the future.

Since pensions represent a fixed income, as the number of pensioners grows, the number of people interested in maintaining the stability of the purchasing power of the dollar will grow. At present some of the most important economic groups in the country, including labor and the farmers, are not averse to inflationary measures since they are in a position to protect themselves against the decline in the purchasing power of the currency. The pensioner is not in such a favorable position and hence he will be willing to join the salaried individual, as well as all others who live on a fixed income, to fight inflationary schemes that may be proposed. This too will contribute to the stability of the American economy.

The social consequences of pensions are also likely to be far-reaching. At 65, the general retirement age, many individuals still consider themselves capable of doing a good day's work. Unless measures are taken to divert the energies of the increasing number of men and women over 65 social and political problems will be created the full consequences of which cannot as yet be fully realized. This will be particularly true if the present trend of pensioners to move to sections of the country where the climate is more desirable for people advanced in years continues. The question of retraining and of educating pensioners in the effective use of their leisure is a great problem of society.

While pension plans lend themselves to adoption by almost any type of business or eleemosynary institution, this does not apply to profit-sharing. Profit-sharing can best be applied in situations where the work is so divided that the efforts and achievements of the individual or the department can be readily measured. Where this is not the case profit-sharing is likely to be considered a general bonus and in time it becomes part and parcel of the remuneration of the individual which he expects regularly. If the employer is not in a position to distribute profits then the reduced income may be considered a reduction in pay and perhaps cause considerable difficulty. Profit-sharing undoubtedly stimulates incentive and creates better employer-employee relations. Before such a plan is adopted, however, careful consideration should be given to the effect it may have on the financial position of the employer and also to the question of whether the earnings of the company are steady enough to warrant the plan.

*Summary of an address by Dr. Nadler before the National Association of Bank Auditors and Comptrollers, New York City, October 19, 1953.

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Arbitrage in the Bond Market

By MORTIMER J. GARTMAN*
Partner, Josephthal & Co., Members of the N. Y. S. E.

Mr. Gartman describes types of arbitrage in the bond market and the effects of arbitrage on the price of corporate securities. Lists as main categories of arbitrage: (1) arbitrage based on price differences in geographical areas; (2) arbitrage in field of convertible bonds, and (3) arbitrage arising out of reorganization plans. Concludes effects of arbitraging on bonds is only important when stock market price levels are high.

I am going to attempt to demonstrate the effects of arbitrage on the price of corporate bonds. The meaning of the word "arbitrage" is fairly simple. In its most elemental form it is the purchase of a security in one geographical area and the sale simultaneously of the same security in another geographical area at a profit.

M. J. Gartman

Another type of arbitrage is the sale of a security and the purchase of another security which is exchangeable, or expected to be exchangeable for the security sold.

Categories of Bond Arbitrage

Corporate bond arbitrage can be divided roughly into three main categories; as to geographical area, in the field of convertible bonds, and thirdly, corporate bonds subject to reorganization plans.

The first operation as to geographical area is largely academic as applied to corporate bonds. The home of the bond market is New York City. While many corporations out of the state issue bonds, eventually the main primary market is in New York. Therefore, there has never been any substantial arbitrage in that type of situation. However, in the past, there have been arbitrage operations in bonds of foreign corporations between that particular locale and New York, although because of foreign exchange difficulties and other problems, foreign corporate bond arbitrage is practically nil today.

The second broad category is the convertible bond, and it is probably the most interesting. A convertible bond is a general obligation of a corporation, usually not secured by any mortgage. It has a definite coupon and maturity date. In addition, it is convertible usually into the common stock of the corporation at some set price. These convertible bonds are sold in two ways: either directly by the corporation to the investor or through underwriters, or via subscription privileges given to stockholders.

In the latter instant where the privilege is given to rightholders, the operation is roughly as follows: a stockholder who obtains the rights and wishes to subscribe to the convertible bond naturally has no effect on the arbitrage operation. However, the stockholders who wish to dispose of their rights can usually sell them either in the unlisted market or on one of the Stock Exchanges. The purchasers of these rights are either investors who wish to subscribe to the new bonds or arbitrageurs who find buyers for the new bonds, buy the rights and dispose of the bonds. The bonds are traded on a when, as and if basis, which simply means they are not physically in existence until some time shortly after the expiration of the rights.

*An address by Mr. Gartman 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 Securities Dealers, American Stock Exchange and the New York Stock Exchange, at the Graduate School of Business Administration of New York University, N. Y. City, Sept. 2, 1953.

Price Factors of Convertible Bonds

There are various factors which determine the price of a convertible bond. The most important is the same as that inherent in a non-convertible issue; namely, the investment value based upon the credit rating of a corporation, coupon rate, maturity and existing levels of the money market. The second price determinant is the conversion privilege. For example, if a stock is selling at $105 per share, and each $100 principal amount of bonds is convertible into one share of stock, and also assuming that the investment value of the bond is par, this would represent an attractive conversion privilege, because if the stock moved up five or six points in the market, the option inherent in the convertible bond would start taking on real value. The bond would then fluctuate marketwise in line with the stock and lose its basic bond features.

Another price determinant of a convertible issue at the time of issuance, is the amount of credit available to finance the purchase of these bonds. Up to last year bank credit was readily obtainable. Interest rates were low, and the purchaser could borrow upwards of 90% of the market value. Today interest rates are higher and banks are less anxious to make loans as high as 90%.

Another form of credit available to the rights purchaser who in effect will be the bond purchaser, is the special Federal Reserve System rule which enables a right owner, in subscribing to a listed security, to put up only 25% of the market price, and the remaining 75% can be borrowed from the firm or bank carrying the position.

An example of a right issue of this type is the forthcoming American Telephone issue. **[Ed. note: The author made this talk prior to formal announcement of the convertible issue to be offered to stockholders of record Oct. 30.]** The issue will be the largest corporate bond issue in the history of the United States — $625 million worth of bonds, which will be offered to stockholders on the basis of $100 principal amount of bonds for each seven shares of stock held. We don't know the coupon rate; we don't know the conversion yet. But based upon past issues and present investment yields it will probably be about a 3¾% bond, convertible into stock around $136 per share. The stock, at this writing, sells at $154, so you can see the conversion privilege will be quite valuable.

In the past the Telephone Company has sold six issues of this type, ranging in coupon from 2¾% to 3½%, and convertible into stock from $136 to $146 per share. The effect of arbitrage on these bonds has been very substantial ever since their inception. As of only two years ago, there were approximately 1.2 billion of convertible telephones outstanding. Last year the figure had been reduced to $800 million; and is at the present time down to a quarter of a million. This enormous reduction of $900 million in two years means that largely that amount of bonds has been converted into common stock. The major portion of this conversion has been made by the arbitrageur by purchasing bonds in the open market, and at the time of rights issues, bought rights, and sold stock in the open market.

The reason for these bonds being converted has been mainly that the coupon rate has been between 2¾% and 3½%, while Telephone stock pays $9 or a yield of about 5½%, so the bondholder could increase his effective yield by going through this conversion. The effect pricewise of this operation, has been, of course, continuous selling pressure on Telephone stock which, through all the years, has always shown a higher comparable yield than other utility stocks.

The announcement last month of this additional $625 million issue caused further selling of the stock, but the amazing thing is that investors throughout the country continue buying Telephone stock, and this acts as the main support for the Telephone Company convertible financing.

A Special Type of Convertible Bond

The other type of convertible bond issue is that sold directly by the issuer via underwriters to the public. This has little effect on the market from an arbitrage standpoint, because each underwriter knows his commitment in advance, and disposes of the bonds directly to dealers, and to customers. Therefore, there is no appreciable pressure on the stock of the company.

An example of this type of financing last year was Dow Chemical Bonds, which were sold slightly above their true investment value with a conversion privilege into stock at $150 per share, while the stock only sold at $118. Due to basic bullish factors which I will explain later, they were over-subscribed in heavy amounts.

It might be interesting to compare why convertible bonds sell at different prices, assuming comparable coupon rates, investment value and conversion privileges.

The last Telephone issue sold on a straight conversion basis and commanded no premium at all above that basis, the main reason being that the investment market was pretty well saturated with Telephone bonds over the past ten years, and portfolios have to be diversified. Just as many Telephone bonds have been bought by investors as their portfolios can justify. Therefore, the main price determinant was the price of the stock rather than investment features of the bond.

At about the same time, Houston Lighting put out a 3¼% bond, the investment quality being no better than the Telephone issue. The bonds were worth about 103 on a straight yield basis, 114 on a conversion basis, yet they sold at 117. In other words, the market gave a premium over and above the investment and conversion values. The reasons were the different territory, the industry, and supply and demand.

As you know, the Telephone Company operates largely throughout the United States, while Houston Lighting operates in the Houston, Texas area, which showed a much better growth factor than the country at large. The stock experienced a more favorable earning trend, split-ups, dividend increases and presented more dynamic growth features than Telephone stock which had been paying the same $9 dividend for the past 30-odd years.

The Dow Chemical issue was a little different. The reason that the bonds commanded a premium over investment value while the conversion price was far above the market was that the company had grown to about five times that of ten years ago, and the extreme optimism regarding the chemical industry caused this bullish sentiment to creep into the bond market. Investors were willing to pay a premium.

A very important factor at the time of the sale of a convertible bond is the existing sentiment, both investment and stock marketwise. In May of this year just after the U. S. Government brought out a long-term 3¼% bond, those bonds broke par. Interest rates were on the way up and bank credit was tightening. Early in the month there were $34 million worth of Southern Natural Gas convertible bonds offered via rights to the public at par. They started trading at 105 and promptly went down to par, or the subscription price.

At the same time $162 million Phillips Petroleum convertible bonds came along, also via rights, underwritten by investment bankers. These bonds started trading at $105 and despite stabilization operations by the underwriters went down to par. After the rights expired, these bonds had a substantial recovery, but you can see that if the timing of an issue is unfavorable the value of the right privilege can disappear during the course of the offering.

Partial Arbitrage

Another type of arbitrage is known in the Street as a partial arbitrage. The reason for a partial arbitrage is that, theoretically at least, it gives protection to the long of the bull position, and at the same time gives partial protection in a bear market.

An illustration of this maybe the Scott Paper bonds which are convertible into approximately 18 shares of stock for each $1,000 bond. The bonds sell at $109 which is exact arbitrage parity with conversion into stock, while the investment value of the bond is approximately $97. The operation here would be buying bonds and selling half the amount of stock that you would be entitled to if you converted, and keeping that position open. If you had a bull market and the stock went up substantially, you could sell off the balance of the stock the bond entitles you to receive and realize a profit.

On the other hand, if you had a poor stock market, and the stock dropped substantially in value, it would also follow that the bonds should reach their investment value and lose their conversion value. The bonds would theoretically go down to 12 points. However, if the stock declined in a greater percentage that that, the short position could be covered at a profit and therefore no loss would be suffered. In other words, there is a more effective price floor on bonds than on the stock due to their higher investment rating.

Bonds Arbitrage Related to Reorganizations

The third category of corporate bonds affected by an arbitrage transaction are bonds related to reorganization plans. The old bond in existence at the time of promulgation of the reorganiza-

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The Inadequacy of Call Price Protection in Security Issues

By VICTOR B. GERARD*

Treasurer, Commonwealth Life Insurance Company
Chairman, Financial Section of American Life Convention

In stating the life companies are troubled over the inadequacy of existing call price features of publicly issued securities, Mr. Gerard finds considerable fear that the recent increased income yields obtained will soon be lost by refunding calls, as in early '40s. Attacks the FPC and the SEC for officially discouraging or even preventing insurance companies from lending to utilities through non-callable bonds or bonds callable only after an extended period.

The past 12 months have been dramatic in the world of finance. The longest sustained period of high production the nation ever enjoyed has apparently reached and passed its crest. The fires of the Korean War have cooled down and international tensions have eased — at least momentarily. Treasury finance has returned to orthodoxy. Federal Reserve policy, aided by substantial increases in productive capacity and a return of abundant supplies of commodities, has arrested the scourge of inflation. Interest rates have been permitted to respond relatively unhampered to the natural forces of supply and demand. Borrowers have deluged insurance companies with requests for loans, and the job of the investment officer has been largely one of selecting those securities and mortgages which best suit portfolio objectives.

Victor B. Gerard

Fearing the worst and trying to prepare for it is, of course, the occupational disease of investment officers. For that reason there is genuine concern that the days of lush investment opportunities in senior securities may be numbered. This seems especially to be a possibility if recent uncertain trends in business conditions should carry forward into a recession.

Call Prices Inadequate

The life insurance business is troubled over the inadequacy of existng call price features of publicly issued securities. This apprehension has been mounting ever since market conditions have begun reflecting a living wage for money and simple justice for the thrifty people of the nation.

Considerable fear is prevalent that the satisfactory yields that have been acquired during the past year will be refunded out of our portfolios "en masse" as they were in the early forties. While it is unpleasant to make new investments at reduced yields, it is hardly short of intolerable to have this problem compounded by mass refundings of a substantial part of our entire portfolios. We do not relish a repetition of our previous bitter experience.

Perhaps our fears are not quite so well grounded now as they were in the early forties. The yields then on the books were adequate and the decline in interest rates made almost the entire portfolio vulnerable. Today we have at least a certain amount of "built-in" call price protection, as a result of the low-coupon, low-yielding bonds purchased in the period beginning a decade ago. However, the desire to protect our current acquisitions from the ravages of another tidal wave of refunding is as natural as eating and as proper as going to church.

Certain other large purchasers of senior securities do not seem to view this call price problem quite so seriously as does the institution of life insurance. Perhaps such substantial bond buyers have not yet suffered the agony of having a portfolio refunded from their grasp; perhaps their guaranteed interest assumptions — when any guarantees exist at all— are much lower than those assumed on life insurance policies. At any rate their complacency has contributed to the failure of issuers and investment bankers to tailor securities to a more realistic pattern.

The seriousness of the problem could be set forth in many ways. Let me merely point out that in the year 1952 the life insurance business earned on its investments, after taxes, only 19 basis points more than was estimated to be needed to cover policy requirements. How slender this margin really is can be illustrated by stating that if a standard 30-year bond, with a three point initial call price feature, is purchased today at a 3.75% yield and is refunded five years hence on a 3.00% basis, the net effective yield for the 30 years (including five years of high yield and 25 years of low yield) is 3.29%— or a decline of 46 basis points from what was originally anticipated. It follows that any wave of refunding would rapidly accelerate the reduction in the percentage earned on investments and cause interest inadequacies once again to plague us. This would mean that policyholders' dividends will again be reduced in the case of participating insurance, and premium rates on new insurance will be raised. Action to increase the cost of insurance would probably come more prompty now than in the period of low interest rates we have just experienced for two reasons: first, because we can hardly expect medical science to effect another dramatic rescue of policyholders by substantially improving mortality from present splendid levels; and second, because this same better mortality of the recent past becomes a negative consideration for the future on older policies—and an unanticipated expense to the companies—as a result of the favorable terms of the settlement options.

The Present Fair Standard Call Premium

An initial three-point call premium over issue price is fairly standard today. If this is considered adequate, why would it not be equally fair to have an additional feature in the bond indenture permitting the purchaser to "put" the bonds to the issuing corporation at an initial three point discount—to force the issuer to buy back its securities at a modest penalty to the lender? Had such a provision been inserted in the low-coupon bonds purchased by the life insurance business during the past decade, we could now ask our borrowers to pay off all the low-yielding bonds we bought during the middle forties at 97 or even more.

I can already hear the borrowers grumblng that such an arrangement would be ridiculous—that, among other factors, such an indenture provision would not properly protect the long-term and non-liquid aspect of industry's brick-and-mortar capital requirements. How true! But it does not seem to occur to some that the life insurance business also has long-range problems — contractual requirements to earn a certain assumed rate of interest on policy reserves—and these contractual needs, I venture to assert, have even a longer duration than the capital projects of industry. An insurance policy may mature in a generation, but settlement options can carry the contract forward an additional generation.

But then the borrower comes to the core of the problem and retorts: Why should the lender be given better terms than he demands? Why should a borrower include a severe call price feature in an indenture when he can secure his money without it? Of course we cannot argue in favor of free competition at one point and deny its validity at another. Nor is it our intention to do so.

Objections of FPC and SEC

But should government agencies like the Federal Power Commission and the Securities and Exchange Commission officially discourage, or even prevent, insurance companies from lending money to utilities because a non-callable feature is inserted in bond indentures — a non-callable feature, mind you, effective for a limited period and operative only if the purpose of the call is to refund the securities at a lower interest rate? A month ago the Federal Power Commission turned down the plan of Mountain States Power to sell mortgage bonds with such a five-year non-redeemable feaure. The Securities and Exchange Commission granted Arkansas Louisiana Gas permission to sell its bonds to a group of institutional investors with a 10-year bar against refunding at lower rates, but only after issuing a warning that, under less rigorous conditions, provisions making debt of senior equity securities non-callable may lead the Commission to reject sales of such securities. Surely the action of the Federal Power Commission and the warning of the Securities and Exchange Commission constitute an impediment to free competition.

Perhaps they even reveal a lack of appreciation that the coin of interest rates has two sides. Perhaps in trying to see that utilities raise their capital economically, the SEC is ignoring one of the original purposes for which it was established: namely, to protect investors. The institution of life insurance is not seeking protection or asking favors, but it does not seem inappropriate to point out that call features benefit only the issuer and are detrimental to the interests of the investor. Would these government agencies have objected to an indenture provision that gave the lender the right to force the issuing corporation to retire its obligation at any time at a very moderate discount? I believe they most certainly would have. Yet, isn't this the same problem viewed from the opposite side? Shouldn't these agencies in fairness take the position that what is sauce for the goose should also be sauce for the gander?

Federal governments, states, provinces and municipalities more often than not issue non-callable bonds. One factor in the low yield on such securities is their non-redeemable feature. The United States Government recently issued a 30-year bond, non-callable for 25 years. Why should the FPC and the SEC deny to the utilities one of the standard methods of increasing the attractiveness of securities to a buyer?

Must institutions be required to lend their money for a long term of years, but have their loan always in danger of being retired at the sole option of the borrower with a penalty of less than one-year's interest? Should not some consideration also be given to the investor's situation if managed money with interest rates manipulated to an artificially low level, once so popular in high government circles, should again, like the proverbial phoenix, rise out of its own ashes?

The Problem Has Other Aspects

Other aspects of the problem also merit attention. Those insurance companies which lend a great portion of their accumulations through the medium of direct placements are able, or at least have been able in the recent past, to protect themselves against possible refundings at lower interest rates by demanding appropriate indenture protection. They have evaluated the risk perhaps only too well. Other insurance companies, which may not have the same opportunities in the direct placement field and which individually have practically no voice in preparing the indenture provisions of publicly offered securities, have virtually no other choice than to meet the market on new issues.

The distributed market for low-coupon bonds provides no solution to the problem posed for those companies which are unwilling or unable to invest a substantial portion of their accumulations in direct placements. The yield on these deep discount securities has been sufficiently lower than on new issues to make the desirability of their acquisition highly questionable—even if they could be bought in the necessary volume, which, as we all know, is generally not the case due at least in part to the fact that the supply is curtailed by the unwillingness of institutions generally to dip into their surplus accounts in order to improve current income.

The smaller life insurance company, therefore, is in effect forced into the new issue market, with its inadequate call price protection. Should interest rates ease, these securities will doubtless be refunded and the over-all yield on the portfolio of such a company will be commensurately reduced. On the other hand, a company which has been able to protect itself by appropriate and proper call price features in its direct placements will retain these higher yielding securities for a longer period to the benefit of its policyholders. This possible future competitive advantage cannot be ignored by the smaller life company.

The investment banker can hardly be expected to provide merchandise that this market does not clearly demand. Besides, a low call price feature may very well redound to his benefit. In a period when there are fewer capital flotations, and when interest rates would presumably be lower, he may be able to keep active by refunding the bonds being sold today. We must understand that in this particular area his interests seem diametrically opposed to ours. Yet it is perhaps also true that because of his failure to provide adequately against call, he has stimulated the interest of life companies in direct placements and may possibly have aroused the curiosity of other long-term investors in this medium. It is difficult to say what is cause and what is effect. But it can hardly be denied that these developments have contributed in reducing the relative importance of the investment banker in the world of finance.

Decline of the Investment Banker

Yet it would be wrong to speak harshly about our friends in the investment banking fraternity. The investment banker is hardly any longer the controlling agent in great areas of the capital market. Competitive bidding has reduced the fine influence he had on indenture provisions in yesteryear. It is only natural, also, for him to have less interest in protecting the professional bond buyers for institutions than he formerly had in guarding the large group of individuals who relied implicitly on his knowledge and his fair-dealing. Nor, for that matter, is the investment banker any longer receiving compensation for his services, particularly in competitive bidding, that would justify his assuming more than a casual interest in the securities he distributes.

Perhaps the time has come for us all to reappraise the whole subject of call price protection—and by all I mean not only the investment officers of life insurance companies and the bond buyers for other types of institutions, but the investment bankers and the interested government agencies. The substantial bond buyer is hardly visionary enough to seek a return to the halcyon days of completely non-callable bonds; nor the 1921 situation when Goodyear issued an 8% bond with a 20-point call premium. At the same time if we invest our money on a long-term basis so far as we are concerned, we believe it only fair that it also be invested on a reasonably long-term basis so far as the borrower is concerned. Adequate provision should, of course, be made for the retirement of debt through mandatory sinking funds at prices carrying little, if any, premium over amortized cost so corporations will be enabled and encouraged to make arrangements to pay off their obligations in a systematic manner. Perhaps even supplementary sinking funds, based on an earnings formula, should also be added. Not to make provision for the orderly retirement of debt would be financial folly, as the receiverships of the thirties of so many once prosperous corporations so eloquently attest.

But for the remainder of the debt, suitable protection should be provided the lender. Either the investment banker and the corporate lawyer should urge their clients to take the initiative, or the bond buyer should himself reconsider the wisdom of acquiring securities which fail to provide reasonable call price protection. Perhaps as a first step the bond buyer should take time to mention—again and again and again—to the representatives of the underwriters the undesirable features of each issue of securities which is offered. Perhaps by a process of osmosis the news will seep back to headquarters and the cumulative effect may result in a change.

Reasonable Protection

But what is reasonable protection? What is fair? What should be suggested? Since it would take a call premium of 13 points above amortized value to protect a 3.75% yield from dilution through a refunding at 3%—which occurred 25 years away from maturity—it becomes obvious that call premiums are unlikely to provide a ready solution of the problem. A two point increase over the existing three point standard—particularly if it were maintained stationary for at least five years—would provide some relief—as a matter of fact about ten additional basis points under ordinary circumstances.

A non-callable feature that would act as a bar to refunding

*Remarks by Mr. Gerard before American Life Convention, Chicago, Illinois, October 9, 1953.

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securities at lower interest rates for a definite period—perhaps for a third of the life of the issue—would seem entirely equitable and thoroughly practicable, particularly if such non-callability for refunding purposes was associated with liberal terms for sinking fund retirements. The companion provision to this non-redeemable feature should be a call price premium at the end of the non-callable period scaling down from a level of approximately one year's interest requirement. Such indenture provisions would not provide complete protection by any means; but they would seem to represent a reasonable compromise, and divide the onus and the benefit of lower interest rates between the lender and the borrower.

Such provisions might help the borrower as well as provide protection for the lender. It would be hard to justify under such indenture terms the wide spreads that have recently prevailed between new issues and deep discount securities, and the assumption is tenable that the new-issue yield would decline. Should interest rates not ease drastically, the issuer would then reap a genuine saving from the lower initial rate at which he could sell his bonds because of their more satisfactory call features. From the standpoint of even the borrower, therefore, the case for inadequate call prices is by no means conclusive.

At any rate there are varied interests involved in the question of call price protection. The problem should certainly be approached in a spirit of give-and-take, and in an atmosphere of fair play. No group should assume an adamant attitude; nor pronounce high call features unwise and non-callable provisions odious. Let is not forget that if life insurance companies can earn fair rates of interest over a long period the benefits redound to the thrifty people of the nation. Let us remember that failure to secure adequate call price protection may result in life insurance companies being repositories for low-coupon, low-yielding bonds, with a minimum of benefit accruing to policyholders from any intermittent period of satisfactory interest rates.

First California Co. Offer Pipe Line Stock

First California Co., Inc., San Francisco, Calif., on Oct. 26 publicly offered the following securities of Nevada Natural Gas Pipe Line Co.: 25,000 shares of $1.50 dividend series cumulative preferred stock (par $21) and 25,000 shares of common stock (par $1) in units of one share of each class of stock at $28 per unit; also an issue of 25,000 additional shares of common stock at $7 per share. Concurrently, the Nevada company is offering to its stockholders at a price of $6.25 per share, without underwriting, 25,000 shares of common stock.

Nevada Natural Gas Pipe Line Co. was organized for the purpose of constructing and operating a natural gas pipeline from the vicinity of Topock, Ariz., to the Los Vegas-Henderson area in Southern Nevada. The company was incorporated in Nevada on March 11, 1949.

The net proceeds from the sale of the preferred and common shares, together with the proceeds from the sale to The Mutual Life Insurance Co. of New York of an issue of $1,150,000 first mortgage bonds, 5% series, due 1973 at 100% of the principal amount thereof, plus accrued interest, are to be expended in the construction of the proposed pipeline to accumulate an inventory of pipe and other repair materials and for working capital.

From Washington Ahead of the News

By CARLISLE BARGERON

You can understand something of the purposefulness and the organized nature of the tremendous propaganda campaign being waged against the Eisenhower Administration from the hypocritical solicitude over his loss of Senator Taft. Tracing this solicitude to its source you find that it is not coming from the Taft supporters. They feel their loss keenly but with them is the realization that had he been elected President he would have lived to serve but a few months.

Carlisle Bargeron

The loud solicitude is coming from those who were against Taft for the nomination, specifically those who fought him outside the Republican party. Those British editors, for example—who held up their hands in terror at the very mention of his name in connection with the Presidency; these British editors and the leftist movement in this country generally. These are the source of the expressed worry now over Eisenhower's "failure to lead," his "failure to assert himself," over his "troubles with the farmers"; from this same source is coming the vocal apprehensions over the future of our economy. But it is a well organized propaganda and it is seemingly proving to be effective. The cumulative effect of it, in fact, is making Eisenhower shrink in the public mind. A picture is increasingly being created of him as helpless in his job, as floundering around, not knowing where he is going and furthermore, not particularly caring. A counter propaganda is badly needed. Not since the days of Hoover has there been such a destructive political force in action.

The facts are, if one but stops to think, that only in the past few days the President has shown a very definite firmness, and an admirable one at that.

Pressed by a manufactured clamor that he get rid of his Secretary of Agriculture he made known quite firmly that he had not the slightest intention of doing any such thing. But more revealing of his quality of leadership, or of his firmness of purpose, was the appearance early in the week of that Secretary, Mr. Benson, before a synthetic group of distressed cattlemen, brought to Washington in buses by that leftist of the leftist leaders, James G. Patton, head of the National Farmers' Union. The National Farmers' Union is an adjunct of the New Deal just as much as is the CIO. It was created in the New Deal and nurtured by it to undermine the more representative and substantial farm organizations, the American Farm Bureau and the National Grange. On Patton's payroll since the overthrow of the new Deal, only temporarily if the Republicans don't get up and fight, are good old "Baldy" Brannan, deposed Secretary of Agriculture, and Gus Geissler who headed the Commodity Credit Corporation under him. The throwing out of their crowd last November seems not to have affected their financial fortunes in the slightest.

It is surprising that the newspapers did not more generally report the nature of this great demonstration of "embattled" cattlemen. Relatively speaking it was on the order of the famous bonus march on Washington in the Hoover days, nothing like as large, of course, or as serious. But in its whipped-up nature by professional agitators it was the same.

Benson did not flinch before this crowd, neither did Eisenhower. Benson turned down their demands coldly and the President backed him up.

This episode did not reveal the President or his Secretary of Agriculture floundering around, not knowing where to go. It showed the two men very firm and determined of purpose.

I am not suggesting that there is no discontent in the agricultural belt, that there is not political trouble out there. But the Eisenhower Administration apparently does not intend to be stampeded in dealing with it. If you want "strength" in the Administration, "leadership," there it is. It may not be popular with certain elements, but there is no wishy-washiness about it. Indeed, if you analyze the Eisenhower Cabinet you find all of them going ahead very definitely about their business. You don't see the President, himself, foaming at the mouth and hurling imprecations every other day at heads of states or at some group in this country. But each one of the Cabinet members is moving forward with the program and purpose he had in mind when he took office, and the President, who undoubtedly knew these men when he picked them, knew what they wanted to accomplish, is giving them free rein and backing them up.

But it seems to me that the Republican party has got to be more vocal in selling to the country what these men are doing, they have got to out-shout the leftists, out-demonstrate them and out-propagandize them. I wouldn't be surprised if the President, himself, hasn't got to don his fighting clothes.

In this connection a statement of his at a recent press conference that he was the President of all the people and did not intend to go on the stump to campaign for Republicans, has caused the lifting of a lot of political eyebrows in Washington. Yet if it had come from Truman, Roosevelt or even Coolidge or Hoover, it would have caused no more than a good horse laugh. All Presidents assume the attitude and apparently they believe it, that they are serving the whole country without regard to politics. They don't go out and openly campaign for members of their own party. Instead, they manage to find some excuse to go into a vulnerable Congressional district or a State during a Congressional campaign, maybe a monument is set up for them to dedicate. Then they just manage to have their favored candidate on the platform with them or on the Presidential train as it moves across the State. Roosevelt used to resort to "inspection" trips during the war when the press was not permitted to report on his comings and goings. But the candidates whom he was trying to help always knew of the Presidential whereabouts and were there on the scene for the crowds to see basking in the Presidential glow.

As a matter of fact, the last man to openly ask for the election of a Congress of his party was Woodrow Wilson and he got just the opposite.

Sound Condition of Banks A Stabilizing Influence

Bayard F. Pope, Chairman of Marine Midland Corporation, in discussing business situation, says historic position of the commercial bank has been reestablished and money rates now reflect more fully factors of supply and demand. Holds, however, ability of bank management will be taxed in adjusting itself to an ever-changing background.

Addressing a luncheon meeting of bankers and financial men in Boston on Oct. 23, Bayard F. Pope, Chairman of the Marine Midland Corp., discussed the present and prospective business situation, particularly as it related to commercial banking. In the course of his address Mr. Pope stated:

Bayard F. Pope

"With evidence accumulating that we have ahead of us an increasingly competitive situation in business generally and some downtrend in activity and possibly in profits, I am sure we can be happy in the fact that the banking structure of the country is in sound condition, and confident overall with respect to the fundamental soundness of bank asset values. This was not true in the real depression of the thirties.

"I think it reasonable to observe from the events of the last several months that the Administration must consider that the inflation has been arrested, and certainly they are alert to the cross-currents at work in the economy.

"The present near future outlook for some adjustment in our economy is tempered as it is by the probability of an even higher level of business activity in the longer future and the presence of many stabilizing influences. It is a fact that the economy has had the benefit in the last few years of great stimuli, partly artificial, which can hardly be expected to be equally present from here on. Not only has the demand backlog for all types of goods, resulting from the economic stagnation prior to 1939 and the war-caused shortages, been largely met, but a great plant expansion took place to meet this demand, which was swollen by the stimulation of the inflation and the armament and foreign-aid needs. There is increasing evidence of at least temporary over-capacity in most industries and over-supply of most raw materials. Nor can one overlook the fact that in the five-year period ending in 1945 there was a $205 billion increase in Federal, State and Municipal debt, and since 1945 private debt has increased by $163 billion.

"Obviously, one cannot be precise in discussing future business conditions. However, I suspect it would not be wise to underestimate the tremendous power of the government over the economy, and the important part government policies have played in determining the trend of business activity in recent years. Further, full employment is the law of the land and it is clear that this Administration will not hesitate to use the power at its disposal to keep a high level of employment and a high national income. The indications of a modification of policy and practice in the last few months bears evidence in this respect.

"Nor should we forget that there have been great and permanent changes in the economic, political and social structure of this country in the last 20 years that will greatly temper any down-swing in the business cycle; and, of

Continued on page 37

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Is Russia Selling Gold?

By PAUL EINZIG

Dr. Einzig in calling attention to decline in free market price of gold and the likelihood that one of its causes is sales of gold by Russia, holds a reappearance of Russian sales of bullion is a good sign, because it is linked with a slowing down in her pace of industrial war preparations. Points out Russian sales of gold would remove likelihood of any increase in United States buying price for gold.

LONDON, Eng.—For the first time since the war the free market price of gold declined below $36 an ounce towards the middle of October. Although several factors were responsible for the declining trend the anticipation of sales of gold by U. S. S. R. is believed to have been one of the main causes. London bullion brokers are unable to obtain confirmation of recent reports that some such sales have actually taken place in Switzerland and in Tangier. It is generally believed, however, that the reappearance of Soviet Russia as a major factor in the international gold market is merely a question of time. Substantial Russian sales of silver in August, raising the amount of U. K. silver imports to 15,092,030 ounces for the month, compared with nil for August, 1952, and 8,881,399 ounces for the first seven months of this year, were largely responsible for the speculation about the possibility of Russian sales of gold.

Dr. Paul Einzig

From the point of view of the free market price of gold this is a matter of considerable importance. Even though figures of the gold output of the U. S. S. R. are not available it is assumed that, after its wartime decline, gold production increased after 1945, and that the Soviet Government has accumulated a considerable reserve.

This is not the first time that the Soviet Union has become a factor in the international gold situation. The evidence of the spectacular increase of alluvial gold production in Siberia was largely responsible for the "gold scare" of 1937, following on the publication of the Russian gold output figure of 7,350,000 ounces for 1936. Even though the prewar output may not have been reached it is widely believed that the U. S. S. R. has regained her position as the second largest gold producer after the Union of South Africa.

There can be no doubt about Russia's ability to sell, should she wish, large quantities of gold on the free gold markets of the East and the West. The question is, why is it that the Soviet Government has so far refrained from doing so? Although the existing small premium over the official American price of gold is not very tempting, in recent years it would have been possible to unload considerable quantities at high premiums. In spite of this the Soviet Government preferred to secure the sterling it needed by means of selling timber and grain, at the cost of delaying reconstruction in the U. S. S. R. and causing acute food shortages in the grain-exporting satellite states.

One possible explanation is that, as a matter of policy, the Soviet Government wanted to build up a substantial gold reserve. Needless to say, this was not needed for internal monetary purposes. Possibly the gold was accumulated as a "war chest." It might have been practicable for the Soviet Government, had it wished to do so, to increase the gold output and export the surplus. That this has not been done up to now may possibly be attributable to a relatively high cost of gold production in the U. S. S. R. If it required less man hours to produce for export £1,000 of timber than to produce for export £1,000 of gold then under the Soviet planning system the available manpower would be used for the production of timber in preference to using them for the production of gold.

Circumstances may possibly arise, however, in which the Soviet Government would change its policy. It has already done so in respect of silver. For the same reasons—whatever they may be—for which Moscow decided to unload silver abroad it may decide to unload gold. This is conceivable in spite of the narrow premium. Indeed, the premium is liable to disappear under the pressure of large and persistent Russian selling. Should that happen there remains the possibility of continuing to sell on the basis of the official American buying price of $35 an ounce. It would be unwise to assume that Russia will necessarily prefer to mark time pending an increase of the American official buying price of gold.

The most popular explanation of Russian selling of silver is that, in connection with Mr. Malenkov's new economic policy the Soviet Government is anxious to increase the supplies of consumer goods. Since it is bound to take time before Soviet production can be switched from capital goods to consumer goods, if the Kremlin wants to increase the supplies of the latter urgently the easiest way is to import them. To pay for these additional imports with the aid of increased exports would defeat its object, since those exports would reduce the supplies of consumer goods in the U. S. S. R. In order to secure a net increase in those supplies it may be considered expedient to pay with the aid of bullion exports.

On the basis of this explanation it may seem that the reappearance of Russian sales of bullion is a good sign, because it is linked with a slowing down of the pace of her industrial war preparations. During a period when a buyers' market has largely replaced the sellers' market in many respects, the additional Russian demand for consumer goods—or, for that matter, even for many kinds of capital goods—may not be unwelcome. It may tend to reduce the danger of a post-rearmament slump in the West, though it would have to assume considerable dimensions before it could become a factor of any importance. In so far as Russian gold finds its way into other countries' monetary reserves it would mitigate the world's gold shortage, and would contribute towards increasing international liquidity.

The other side of the picture is the virtual certainty that any evidence of Russian gold selling would finally remove any lingering hopes of an increase of the American buying price of gold. Indeed the reactions of the United States to Russian selling of gold on a really large scale would be quite incalculable.

Moreover, the memory of the experience of 1939 when on the eve of the outbreak of the war, Germany was drawing heavily on her none too plentiful gold stock in an 11th-hour effort to buy up strategic raw materials is still fresh in our minds. History need not necessarily repeat itself, but the possibility, however, remote, of its repetition should not be overlooked.

English Gold and Silver Market

The quarterly bullion letter of Samuel Montagu & Co. Ltd., London, England, written under date of October 1 is given below:

Gold

The amount of gold held in the Issue Department of the Bank of England is unaltered at £356,823.

The Bank of England's buying price for gold remained unchanged at 248s. 0d. per fine ounce, at which figure the above amount was calculated.

It was announced by the Treasury that the sterling area had a gold and dollar surplus in August of $13 million; this compares with surpluses of $89 million in July and $46 million in June. At August 31 the gold and dollar reserves stood at $2,469 million. The August surplus arose after taking account of receipts from the United States during the month of $19 million as defense aid; the payment of $6 million to the European Payments Union, representing that part of the July deficit of £4 million which was settled in gold or dollars; and the payment of $39 million to Canada under the interest-free loan of 1942.

The gold output of the Transvaal and Orange Free State for June, July and August, 1953 is shown below, together with figures for the corresponding months of 1952 for the purpose of comparison:

	1953 Fine Ounces	1952 Fine Ounces
June	969,821	977,527
July	1,030,089	1,010,978
August	1,017,409	997,099

The international free gold markets have continued to be very inactive during the past quarter. Supplies from the producing countries have continued on the usual scale and with buyers showing little enthusiasm, the general tendency of prices has been downward with $36.20, quoted yesterday, the lowest price during the period.

Silver

During the third quarter of the year, the official cash price was quoted unchanged at 74d. per ounce .999 fine. There was one alteration in the two months' price which, on August 6, was raised from 73¾d. to 74d., prices for both positions remaining level at that figure for the remainder of the quarter.

Demand for essential industries was moderate and until the end of July was met by sales from official stocks; during the last two months, however, silver for this category was readily available from "free" market sources.

The "free exportable" market was, on the whole inactive as will have been gathered from the fact that "free" silver was offered for essential purposes. Nevertheless, as during the previous quarter, there were encouraging features, in particular the arrival from the Soviet Union of nearly 14½ million ounces. It is understood that the bulk of this amount was taken by the authorities to augment official stocks. While outward movements were of lesser importance, they included further consignments of considerable amounts for coinage purposes.

THE MARKET . . . AND YOU

By WALLACE STREETE

Stocks went through a week that could best be described as routine, what with dividends, earnings and mergers motivating individual issues in both directions. For the list generally, even if no progress of technical importance was achieved, it at least was encouraging in that there was good resistance to any downdrift.

* * *

From a technical standpoint, the industrial shares on average have recovered from the September dip and are back around the levels of the August highs. Rails continue to be the big disappointment of the Fall, lagging some 10 points under the August levels so far. In the main the earnings statements have been excellent but apparently the frugality of the dividend payout has kept stockholder enthusiasm well in check.

* * *

The hesitation the list ran into this week was thoroughly in line with the technical work that put a rather broad band of congestion in the D. J. 275-85 area. If this supply area isn't to be a ceiling for the current move, it still is sufficiently broad to make the task of working through it a somewhat protracted one. In August the overhead resistance in this territory was enough of an obstacle so that the September lows were, in part, blamed on failure of the list to chew through the supply.

* * *

The difference — which could be vital—is that unlike the same situation a couple of months ago, at this time there is no technical evidence that the rally has run its course or gotten out of hand in any way, excepting only the stubborn refusal of the rails to get going.

* * *

Steels, motors and even the long-depressed oils, although only briefly, had their moments of strength. Aircrafts continued on the buoyant side, excepting for some momentary disappointment when Boeing Airplane did not, as so widely expected, come through with a stock payment.

* * *

Strength in Steels

Good earnings and a couple of cheering dividend actions helped give the steels their moments of strength. There is also a suspicion growing that the breakeven points in some of the steel mills are considerably lower than some of the dire forecasts of the last few years. This, along with the Excess Profits Tax cushion, would give them a far greater margin to weather any minor business letup than has been conceded generally.

* * *

For the motors, the Briggs-Chrysler deal to take over the body-building facilities of the independent company served as a spark that spread to the other auto parts suppliers and even to some of the independent auto makers. Such as Reo, before it died out. Briggs put on a one-day-wonder performance, spurting for a gain of half a dozen points, or some 20% of the stock's value, before the inevitable profit-taking and the doubts over the value of the assets to be retained trimmed it back. The net result of these flurries in the motors was little, but it did serve to illustrate that interest could be built up in this section which is the top selection for the group that has passed its boom peak.

* * *

Domination by Telephone

American Telephone dominated both the stock and bond markets to a degree as trading started on a when-issued basis in the new convertible debentures and the rights to stockholders that go along with them. First day trading in the rights saw a quarter million change hands and the debenture trading was enough to keep the bond market busier than it has been in almost a year. Prices all around were a bit lower than had been anticipated, the debentures starting at a shade under $117 against the $120 predicted and the rights at 2⅜ which was more in line with the 2½ calculated in advance of the actual dealings. The stock, too, was under a bit of weight occasionally and its one-day loss of three-quarters of a point was a somewhat wide move by a stock that lately has varied from day to day by the smallest fractions.

* * *

For concerted action, the paper stocks seem to be doing best. The daily lists of new highs have had one or more paper issue on them for the last several sessions, Scott Paper becoming more or less of a regular member of this class. At the other end of the list, the textile and sugar issues have yet to be displaced as the worst acting issues for a rather long while. West Indies Sugar joined the new lows of the week by slumping through 18 which is the poorest price recorded for it since 1949. Last year it sold above

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41 and hit 45 in 1946, by way of comparison and also as proof that the averages leave lots to be desired in measuring the action of the bulk of the stocks that comprise the market.

* * *

Early Tax Selling

It is in issues like West Indies, where the outlook is clouded or poor, that there has been considerable indication of early tax-loss selling. Such trimming of the financial sails in anticipation of changes in the tax rates next year has kept the secondary issues generally from being able to show any sustained signs of life no matter what the blue chips do. Despite reams of advice on the many facets to tax loss maneuvers, the better class issues show little signs that investors are doing tax selling in anything like the volume that had been expected. Partly as a result, the rebound in volume from the doldrums of the summer is still disappointing with a million and a third shares a day constituting about the best that can be recorded. It has been well over a month since the last two million share session.

* * *

One group that has tried hard to win back its old-time following with little or no luck has been the tobacco issues. Each time they show signs of popularity something comes along to blunt the enthusiasm, latest being predictions that cigaret consumption this year will show a slight decrease. American Tobacco's best effort since 1947 has been some 20 points under the 1946 high, consequently. Phillip Morris has fared slightly better although its best level recently has still been less than it attained last year or, for that matter, even in 1950.

* * *

In ignoring things, the tobaccos are only second to the televisions which have remained remarkably aloof over all the promises of color television and, for that matter, of rather markedly higher earnings as well. The coal companies have shown little reaction to all the talk of electricity produced by atomic energy, but in their case it probably is because they're so depressed there is little any additional weight can do.

[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.]

With Gross, Rogers

(Special to The Financial Chronicle)

LOS ANGELES, Calif. — William L. Bagnard has become associated with Gross, Rogers Barbour, Smith & Co., 559 South Figueroa Street, members of the Los Angeles Stock Exchange. He was previously with Edgerton, Lofgren & Co.

Public Service Elec. & Gas Bonds Offered

Public offering of $30,000,000 Public Service Electric & Gas Co., new first and refunding mortgage 3¼% bonds, due 1983, was made yesterday (Oct. 28) by an underwriting group comprising 38 investment firms headed jointly by Morgan Stanley & Co. and Drexel & Co. The bonds are priced at 101.34% and accrued interest to yield 3.18% to maturity. The issue was awarded at competitive bidding on Tuesday.

Proceeds from the sale of the bonds and from the public sale last week of 800,000 shares of additional common stock 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.

The new bonds are subject to optional redemption at 104.84% if redeemed during the 12 months beginning Oct. 1, 1953 and thereafter at prices decreasing to the principal amount after Sept. 30, 1982. Special redemption prices range from 101.34% to the principal amount. An annual sinking fund of $300,000 begins in 1954 for these bonds.

As of June 30, 1953, the company's construction program amounted to approximately $91,084,000 and included installation of an electric turbine-generator of 145,000 kilowatt capacity at Kearny Generating Station to be placed in operation this fall and the installation of a 185,000 kilowatt capacity turbine-generator at Burlington Generating Station scheduled for operation late in 1954. Of the 1,910,300 kilowatt capacity to be available this fall, over 45% will have been installed since Jan. 1, 1947.

The construction program includes $22,130,000 to be expended on the gas distribution system.

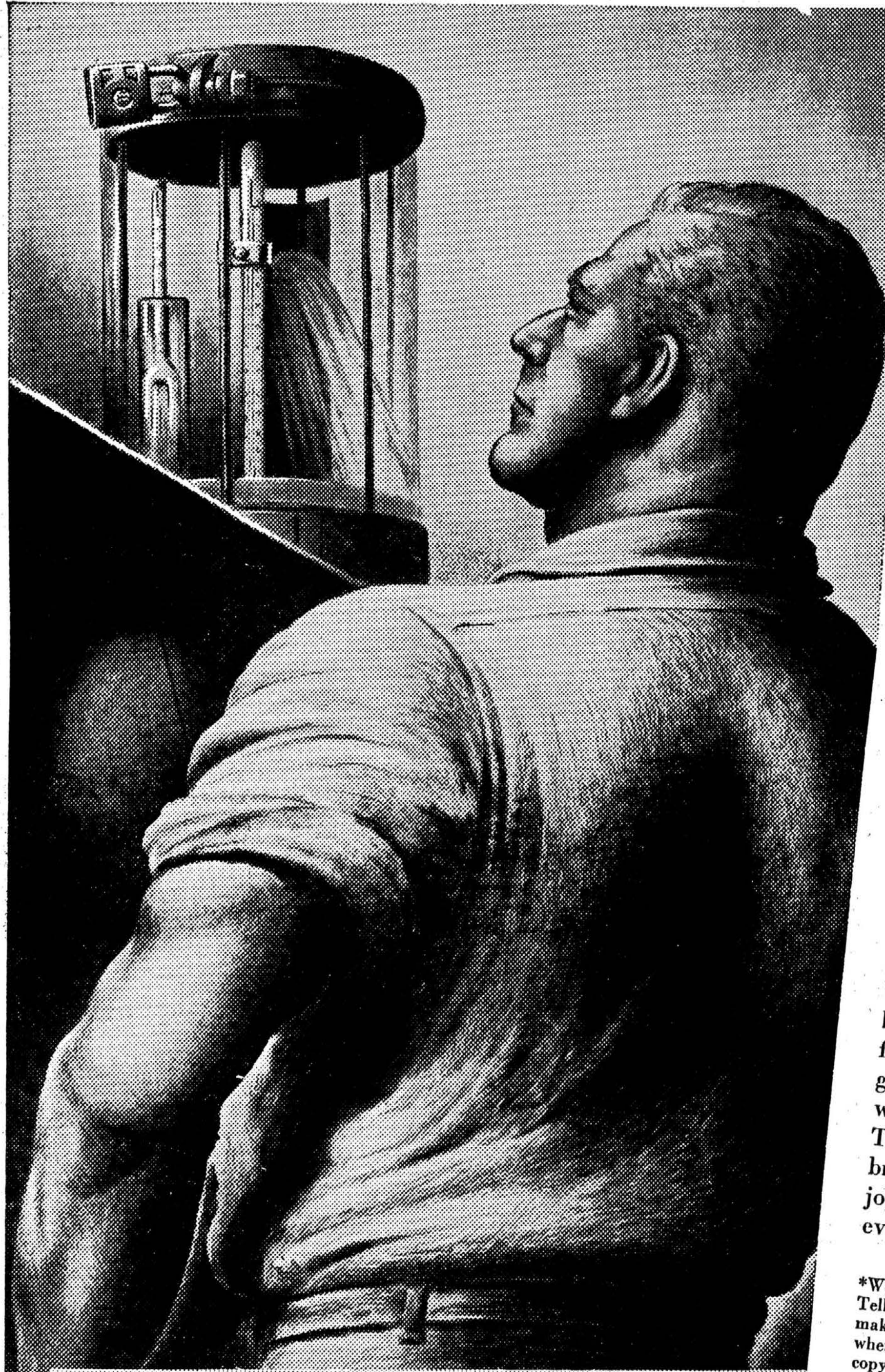
Public Service provides electricity or gas or both to over 80% of New Jersey's population of 4,835,000. This includes practically all the state's important cities and one of the most heavily industrialized areas in the country. Through a subsidiary it operates the largest single fleet of buses in passenger transportation in the country.

Operating revenues have increased from $170,100,000 in the year 1948 to $223,107,000 in the 12 months ended June 30, 1953. During the same period gross income before income deductions has risen from $28,594,000 to $35,527,000.

The company has stated that although it will be necessary to do additional financing to cover the cost of its construction program, no further sales of securities are contemplated in 1953.

Now Bengston & Co. Inc.

The firm name of Nelson Bengston, Incorporated, 55 West 55th Street, New York City, has been changed to Bengston & Co., Inc.



The key is locked inside

The clear, sparkling liquid flowing into the bell-shaped gadget has just become whiskey. Previously, it was a bubbling mixture of grain and water and yeast. Then distilling turned it into a useful, enjoyable product.

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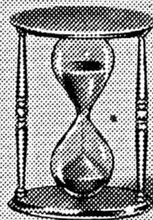

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After the Boom is Over, What?

By E. SHERMAN ADAMS*
Deputy Manager, American Bankers Association
Head, Department of Monetary Policy, ABA

In commenting on possible downswing in business and its effects on banking, Dr. Adams lists reasons for confidence in future as: (1) basic soundness of our economy; (2) a growing inherent stability in business world; (3) a strong and financially sound banking system; (4) government facilities to ease a downward trend; and (5) the inherent and proven resiliency of our economic structure. Discusses outlook for bank lending and investments, along with future trend of deposits and the course of interest rates. Finds bank earnings have acquired a new element of stability and growth.

Booms do not last forever—at least they never have. None of us can predict with certainty when the current boom will subside or just what will happen when it does. But we can, I think, arrive at certain conclusions as to what a downswing in business might mean—and, more specifically, what it might mean to banking.

Dr. E. S. Adams

How would a decline in business activity affect bank loans? What would it do to the volume of bank investments? What would happen to total bank deposits? What about the level of interest rates? Finally, what implications would it have for bank earnings?

These questions are well worth exploring even though we cannot answer them with preciseness. We can at least estimate probabilities, and our estimates should have some practical application to the formulation of banking policies today.

Reasons for Confidence

At the outset, let us establish the fact that we do not expect a severe depression. We have good reasons for that conviction, not just congenital optimism—nor a determination to talk cheerfully—for mere optimism, of course, and roseate speeches have little potency. After all, there was plenty of bullishness around early in 1920 and early in 1929—and even in 1930 we were assured that "prosperity was just around the corner." On the other hand, it is important to avoid undue pessimism. So it may be well to summarize briefly some of the main reasons why we are confident that we are not on the brink of an economic collapse or anything resembling one.

(1) Our national economy is basically sound. During the past several years, many of the weaknesses and maladjustments engendered by the boom have already been corrected. To be sure, some further readjustments still lie ahead; but there is no large accumulation of potential trouble spots. Generally speaking, we have avoided speculative excesses. Despite the prolonged boom, bankers, businessmen, and the public have kept their feet on the ground.

(2) Our economy has greater inherent stabilty than it used to have. All of us are familiar with the so-called built-in stabilizers which would cushion an economic decline—the farm support program, unemployment insurance, and the like. The high level of defense expenditures is another stabilizing factor.

(3) Our banking system is in strong financial condition. The quality of banking assets is high, and their liquidity is ample. For many years, the banks have followed conservative dividend policies and have substantially increased their capital accounts and reserves. There is no possibility whatever of serious banking difficulties. Banking stabilty can be relied upon to contribute to the future stability of the American economy.

(4) If business turns downward, we know that the government and the Federal Reserve System will promptly adopt policies to combat such a trend. I have no desire to exaggerate the efficacy of governmental action; but there are several things which the government could do, especially in the areas of taxation and public works, which might be very helpful.

(5) Finally, our best assurance lies in the flexible, dynamic character of our American economy. Its resiliency has been attested by our rapid readjustment after World War II, by the mildness and brevity of the 1949 reaction, and by the way we have taken in stride the shift to a defense economy. Over the past decade, we have witnessed in this country a renaissance of our traditional enterprise and virile growth. Our energies have been reawakened. Technological progress has been proceding apace. Industry has been renovating and expanding on an unprecedented scale and plans to continue to do so. There is every indication that capital expenditures by states and municipalities will continue to grow. Our population trend is again strongly upward. These vigorous, long-term growth factors will be a powerful antidote for any downward drift in business.

These considerations rule out a deep and prolonged depression. For our purposes, therefore, let us think in terms of what might happen if there were to be a moderate recession—one comparable, let us say, to that of 1949. In that year, industrial production declined about 8%; wholesale commodity prices, 5%; and personal incomes, roughly 2%. Under present-day conditions, how would a slowdown of these dimensions affect banking?

The Outlook for Loans

Have you ever tried to estimate the extent to which the rise in bank loans since the end of World War II has been caused by factors which may prove to be temporary? I have in mind the restocking and expansion of inventories at sharply higher price levels, the construction boom, the extraordinary growth of consumer credit, the incentive to borrow stemming from the "excess profits" tax, the acceleration of corporate tax payments under the Mills Plan, and the unusually high rate of business outlays for plant and equipment.

I have asked this question of many bankers and economists. No one, of course, has tried to give anything like an exact answer, but there is general agreement that the combined effects of these transitory factors upon the volume of bank lending have been very great.

Business charges for depreciation have increased greatly. Corporations are now able to generate enormous amounts of cash each year. Any appreciable decline in the rate of their capital expenditures, especially if accompanied by some paring of inventories, would obviously reduce their borrowing requirements.

In 1949 bank loans to business declined about 10%. Total loans of all kinds showed a small net increase for the year, due largely to the continued growth of real estate mortgages and consumer loans. But today the pent-up demands for housing and for consumer durable goods have largely been satisfied, and these loans could hardly be expected to display the same strength that they did in 1949.

A future decline in demand for credit would affect various banks differently, depending on the character of their lending activities and other individual circumstances. Certain banks might be largely immune; but many, it would seem, might experience rather sizable declines in their loan portfolios.

Would Bank Investments Increase?

About one-fifth of the investment holdings of the commercial banks consists of corporate and municipal obligations. Practically all of these securities are of high investment quality. Banks are not likely to be under any pressure to liquidate these holdings. To the contrary, a lessening of loan demand would provide added incentive for bankers to continue to add to these investments, particularly to their municipals. But the big question is whether the banks would increase or reduce their holdings of U. S. Government securities. To answer this, we must take a look at what might happen to the Federal budget. In general terms, this can be summed up in three sentences:

(1) During the past several years, the level of government expenditures has almost doubled and is now far higher than ever before in peacetime — more than eight times higher, for example, than in 1939, the peak spending year of the New Deal.

(2) About 80% of all Federal revenues consist of corporate and personal income taxes, and the yield from these taxes would drop sharply with a decline in national income.

(3) It follows that, barring a drastic curtailment of our defense program, any appreciable dip in business would automatically create a substantial deficit in the Federal budget.

How Large a Deficit?

One careful analyst has recently estimated that, under existing conditions, a slowdown of the 1949 type would produce a budgetary deficit of more than $17 billion and a cash deficit of about $16 billion.[1] This estimate takes into account the tax reductions which are now scheduled.

If business contracts, however, additional tax relief might be enacted to stimulate private spending. This is certainly not precluded by the Administration's devotion to "sound money" and its emphasis on balancing the budget under boom conditions. If tax alleviation can contribute to economic health, it is sound policy. Even from a purely fiscal standpoint, a healthy, high-elevel economy is essential to support the burdens of our enlarged Federal budget and public debt. Temporarily, however, tax cuts might cause a further drop in the Treasury's revenues.

On the expenditure side of the budget, I think you will agree that scant reduction, if any, can be expected. Such economies as might be achieved are likely to be offset by higher costs for agricultural programs and for public works. There would also be larger outlays for unemployment compensation.

Assuming, then, a large cash deficit, the next question is whether this would be financed entirely by nonbank investors. In view of the magnitudes with which we are dealing, it seems fairly clear that it would not be. In other words, the banking system would be called upon to add to its holdings of Treasury obligations.

The Future Trend of Deposits

What would be the trend of bank deposits? Actually, we have pretty well answered this question already. As we know, the repayment of bank loans would tend to cause an equivalent contraction of bank deposits, and a growth in bank investments would tend to create a corresponding amount of new deposits. Under present-day conditions, these two factors, bank loans and bank investments, very largely determine changes in total deposits.

This was not always the case. There have been times when gold movements had considerable influence upon the volume of domestic bank deposits. But today gold movements are comparatively small relative to our greatly expanded money supply. Consequently, the main question that concerns us is whether the increase in bank investments would more than offset the decline in bank loans.

This question suggests a very interesting little exercise — one which I recommend that you try for yourself. You would start by making certain assumptions as to what a downturn in business might entail. You might assume, for example, a 10% decline in industrial production and a 5% drop in commodity prices. You would then proceed to make your own estimates as to what this would mean to the volume of bank loans, how large a deficit the Treasury would incur, and what part of this deficit would be financed through the banks.

I have made various computations along these lines myself and have seen others make them. I venture to predict that if you will make your own estimates of this type, you will reach the conclusion that if business activity recedes, the rise in bank investments may very easily exceed the decline in bank loans—in other words, that the volume of bank deposits may expand rather than contract.

Here, incidentally, is another aspect of the increased inherent stability of the American economy. In former times, a recession was frequently intensified by a sharp contraction in the money supply. Under present-day conditions, this would not be in the cards at all.

A Moderated Market

What would be the outlook for interest rates?

In recent months, we have heard considerable discussion about the restoration of a "free" money market. I think we all recognize that "freedom," in this connection, is a relative matter. The Federal Reserve System is the key factor on the supply side of the credit picture, and the Treasury is the nation's largest borrower. Under these circumstances, it is difficult to see how the money market could possibly be completely "free."

It is highly significant, of course, that we do have a greater degree of freedom in the money market than formerly. The so-called "natural," or nonmanaged, factors are now of greater importance. However, the actions and pronouncements of the monetary authorities, both Federal Reserve and Treasury, will continue to exert considerable influence on the market. This has been demonstrated repeatedly by the events of the current year.

Perhaps it would be more accurate to say we now have a "moderated" market, rather than a "free" market.

It seems clear that a softening in business would be accompanied by reduced private demands for credit and that this would produce a declining tendency in interest rates. To what extent would the policies of the monetary authorities moderate, or intensify, such a trend?

How Far Would Rates Decline?

As for the Federal Reserve, one can confidently predict that it would promptly adopt a policy of monetary ease and permit easier credit conditions to develop—or even encourage them, if necessary. Already, within the past few months, with the waning of inflationary pressures, the Federal Reserve has definitely shifted to a mildly easier policy.

How far would such a policy be carried? How easy is easy? Is there any likelihood of a return to the super-easy credit and abysmally low money rates that prevailed only a few years ago? Such a development, it seems to me, is extremely unlikely, for three main reasons:

(1) Those exceptionally low interest rates were a legacy from the thirties. They were perpetuated into the forties only because of the adoption of rigid wartime controls. They developed as the result of a protracted period of depressed business plus a fortuitous factor of great significance. This was the huge quantity of excess reserves that was created by the extraordinary increase in our monetary gold stock, a quantity far in excess of the total amount of government securities then held by the Federal Reserve banks and therefore beyond the control of the Federal Reserve authorities. It was this enormous volume of excess reserves that was responsible for the depths to which interest rates plummeted.

Under present-day conditions, that situation could not recur. The Reserve banks now hold approximately $25 billion of government securities; and this means that, through open-market operations, they could offset the effects of any conceivable increase in our monetary gold stock. In short, the Reserve System is now in a position to moderate any declining, as well as rising, trend in interest rates.

(2) The Reserve authorities have indicated on numerous occasions their realization that an easy money policy should not be carried too far even when there is some slack in the economy. At such a time, easy money does not provide much positive stimulus to business. It is appropriate policy, of course, if only because it means the avoidance of credit restriction. Nevertheless, when credit is easily available at reasonable rates, there is little to be gained by making it cheaper. In fact, it is important to prevent interest rates from falling too fast and too far.

(3) A major factor which can be expected to moderate any decline in rates, particularly longer term rates, will be the debt management program of the Treasury. It has now become abundantly clear that debt management will be one of the dominating influences in the money market for many years to come.

There seems to be a rather widely held misconception that if business recedes, the Treasury should not seek to lengthen out the debt but should restrict its financing to short-term bank issues. It is contended by some that at such a time, the sale of longer term issues by the Treasury would thwart the objective of the Federal Reserve to encourage the extension of credit to private borrowers.

This, it seems to me, is an over-simplification, to say the least, and a misleading one. If business slows down, the supply of loanable funds in the hands of nonbank investors will tend to exceed private demands for these funds. there is no reason why the Treasury should not tap some part of

*An address by Dr. Adams before the Fall Meeting of the District of Columbia Bankers Association, Washington, D. C., Oct. 19, 1953.

[1] "The Federal Budget and Corporate Profits in a Business Decline," by William R. Biggs, Vice-President, the Bank of New York, September, 1953.

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these savings provided it does not tap too hard.

In short, the Treasury could sell some long-term bonds without preventing an easing of the capital credit market. In view of its announced objectives, one can expect the Treasury to take advantage of such an opportunity.

Nor would such a program cause a reduction of bank-held debt or the money supply. At such a time, the Treasury would be increasing its total borrowings in order to finance deficit operations; and this would lead to a net increase in bank holdings of government obligations.

Lengthening the Bank-held Debt

It should also be noted that under those conditions, the Treasury will have an excellent opportunity to lengthen out its maturities in that portion of the debt which is held by the commercial banks. At the present time, to be sure, the banks have little appetite for intermediate or long obligations. But that situation can change rapidly if loans and short-term interest rates decline.

Under those circumstances, it might be surprisingly easy for the Treasury to refund a goodly part of the bank-held debt into notes and medium term bonds. The outstanding success of the Treasury's recent offering of 3½-year notes is a good indication of how quickly the attitudes of bankers can change.

So perhaps we can conclude that a decline in business would mean somewhat lower interest rates, but not a return to the abnormally low rates of the thirties. The decline in medium and long-term rates would probably be moderated by the Treasury's refunding activities.

It is instructive to examine recent money market developments. Over the past several months, the Federal Reserve has permitted easier credit conditions to develop in the short-term market. This, in turn, has been accompanied by higher prices for longer term securities. Meanwhile, the market has absorbed $3 billion of new 3½-year Treasury notes. This general pattern may be a preview of what might develop in the event of a business decline.

The Impact on Bank Earnings

What would all these factors, and others, add up to in terms of their net impact on bank earnings?

In recent years, as we know, there has been some improvement in bank earnings. For the near-term future, the prospect is for some further improvement as loans are renewed and reinvestments made at rates that are higher than prevailed when the original loans and investments were put on the books.

However, even with business activity and bank loans at record levels, the net profits of many banks are none too good in relation to capital accounts. Most of the increase in gross earnings since 1945 has been absorbed by higher costs. With some slackening of the extreme tightness of the labor market, employee turnover would decline. Even so, many banks may experience some further rise in operating expenses.

Losses on loans may increase. There has been no real test of banking assets for many years. A period of readjustment would undoubtedly reveal some weak spots in loan portfolios.

On the other hand, bank earnings have acquired a new element of stability which they did not formerly possess. In fact, banking now has a unique kind of growth factor. In good times, individuals and business firms increase their borrowings; and when business falls off, the government increases its borrowings.

Admittedly, a contraction of loans would hurt bank profits even if it were accompanied by an equivalent increase in investments, because the latter would yield a lower return. Nevertheless, bank earning power is less vulnerable to a shrinkage in loans than tt used to be. Moreover, for many banks, losses on loans may be more than offset by market appreciation in their bond investments.

Bank Lending Rates

Much will depend upon what happens to bank lending rates. If yields on government obligations decline, the tendency, of course, will be for a softening of bank lending rates. However, the relationship between government security yields and over-the-counter rates is by no means automatic and invariable. We have learned from painful experience how harmful it is for banks to indulge in excessive competition for loans on a rate basis. It seems unlikely that a mild business recession would touch off a renewal of that type of destructive rate competition.

Or, to put it differently, the spread between government security yields and bank lending rates may be somewhat greater in the future than it was during most of the thirties and forties.

We might conclude, therefore, that the general outlook for bank earnings is not too ominous. Nevertheless, when the current boom subsides, many banks may be confronted with some rather difficult problems with respect to earnings.

What can they do about it? The answer, naturally, will depend upon the circumstances of the particular bank. It may be useful, however, to mention certain possible avenues of approach to the problem.

(1) One approach would be through investment policy. Some banks could use additional tax-exempt securities to good advantage. Others are holding more short-term securities than they really need for liquidity purposes. Any declining tendency in loans and short-term rates always raises the question in the mind of the alert banker as to whether he should lengthen out his maturities somewhat in order to protect his future earnings position.

(2) In many instances, service charges will receive renewed attention.

(3) Some banks may be able to enlarge certain of their activities or inaugurate new services. Some, for example, could probably increase their consumer loans. Others may compete more aggressively for savings business and expand their mortgage lending. In recent years, a number of banks have developed a variety of specialized new services which have proven to be profitable in their particular areas. If profits decline, many bank managements will be taking a new look at the various possiblities for earning additional income.

(4) Further operating economies can be achieved. Much progress has been made in this direction. But declining income is the mother of efficiency. Bankers and the designers of business machines, including electronic equipment, have by no means exhausted their ingenuity in achieving lower costs for bank operations.

In brief, the period ahead may be one of unusual challenge to bank management. Banking policies will need to be carefully reappraised and readapted to changing conditions. It will not be a time for clinging to past policies and procedures simply because they have worked out all right during the boom years.

Over the long run, of course, the outlook for private banking in this country is good. The banks perform services which are vital to every group in the community. They have been doing a better job each year and will continue to do a better job each year in the future. Over the years ahead, there is every reason to expect that banking will continue to expand and prosper by serving the expanding needs of our energetic, growing economy. We are confident that the bankers of this nation will live up to their responsibilities and their opportunities for service that lie ahead in this, the American Century.

Baschen, O'Day V.-Ps. Of Northern Trust

CHICAGO, Ill.—Alford J. Baschen and Daniel O'Day, Second Vice-Presidents in the bond department of The Northern Trust Company, have been elected Vice-Presidents by the Chicago bank's Board of Directors.

Mr. Baschen, who joined The Northern Trust Company in 1931, heads the U. S. government and bond and institutional sales division of the bond department.

Mr. O'Day continues as The Northern Trust Company's senior representative in New York City, with offices at 15 Broad Street. He joined The Northern Trust organization in 1946.

Halsey, Stuart Group Offers United Gas 3¾% Debentures

Halsey, Stuart & Co. Inc. and associates yesterday (Oct. 28) offered $25,000,000 United Gas Corp. 3¾% sinking fund debentures due Oct. 1, 1973, at 100.70% and accrued interest, to yield 3.70%. Award of the issue was won by the group at competitive sale on Oct. 26 on a bid of 100.13%.

Net proceeds from the sale of the debentures will be used by the company to purchase from its subsidiary, United Gas Pipe Line Co., $10,000,000 principal amount of its 5% sinking fund debentures due 1973; to provide the subsidiary with funds toward the completion of its construction program, and to replenish the company's treasury and for other general corporate purposes, including advances of additional funds as may be required by Union Producing Co., another subsidiary.

The debentures will be redeemable at general redemption prices ranging from 103.70% to par, and for the sinking fund at prices ranging from 100.68% to par, plus accrued interest, in each case.

United Gas Corp., and its subsidiaries, Union Producing Co. and United Gas Pipe Line Co., are known as the United System and are engaged principally in the production, purchase, transportation and sale of natural gas and the production and sale of crude oil and other liquid hydrocarbons. The System operates in Texas, Louisiana, Mississippi, Alabama and Florida. Another subsidiary, Duval Sulphur & Potash Co., is engaged in the production and sale of sulphur and potash in Texas and New Mexico, respectively.

For the 12 months ended June 30, 1953, United Gas Corp. and subsidiaries had consolidated total operating revenues of $191,863,500, and net income of $24,071,396.

Announces the Opening of its 800th Office

The 800th office in the Beneficial Loan System has recently been opened at Chicopee, Massachusetts. Beneficial now serves borrowers through offices located in 532 cities in the United States and Canada.

The 45th new unit to be added this year, the Chicopee office is more than a measure of Beneficial's growth. It is also the latest expression of Beneficial's continuing policy of meeting family financing problems with realistic help—when and where the need for it arises.

That policy is the reason why the Beneficial Loan System in 1953 will make more than a million-and-a-half loans, totaling approximately half-a-billion dollars.

A Beneficial Loan is for a beneficial purpose.

Beneficial Loan Corporation
WILMINGTON, DELAWARE

Subsidiary Loan Companies: Personal Finance Company . . . Commonwealth Loan Company . . . Lincoln Loan Corporation . . . Workingmen's Loan Association, Inc. . . . Beneficial Finance Co. . . . Consumers Credit Company . . . Provident Loan and Savings Society of Detroit

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States Collect More Taxes in 1953

By V. J. WYCKOFF

Professor of Economics, DePauw University

Prof. Wyckoff reveals and interprets Census Bureau figures of state tax collections in 1952-53 fiscal year. Finds trend toward larger and larger state tax revenues continuing, and ascribes this not only to higher costs but to more and more state services. Finds state revenues still below expenditures, difference being made up by Fed. subsidies and other sources.

The 48 states collected more tax money during the 12 months of the 1952-53 fiscal year than ever before. The preliminary figure is $10,542,000,000. Although the Governments Division of the Census Bureau, which just released this total, had to include a few estimates, the final returns some months later will show very few changes. For the prior fiscal period ending June 31, 1952, the total was $9,857,000,000, or 6.5% less than this year. Also the final report on state revenue will give other sources such as Federal aid, charges for services, liquor store revenue, and trust fund receipts—the grand total of all states probably coming close of $17.5 billion.

V. J. Wyckoff

To write of state tax revenue as being between $10 and $11 thousand million emphasizes the point that this is a lot of money. Yet this is but a part of the citizen's tax bill. Total net Federal budget tax receipts for fiscal 1953 came to $65 billion. Add an estimated $10 billion for local governments and the total for all governmental levels is about $86 billion. On a per capita basis this works out to $538, or about $2,000 per family.

This tax sum of $2,000 per family may well be considered a burden especially when it is estimated that about 41% of the "spending units" in this country in 1952 had money incomes before taxes of less than $3,000 a year. Although these figures are valid, the tax position of the low-income group is not quite as bad as it appears. The reason is that a substantial part of the $2,000 tax bill comes from Federal and state net income taxes which hardly bother spending units with less than $3,000 a year.

But for families in even the middle brackets annual taxes of at least $2,000 are very much a reality. And as the Federal tax rate on individual net incomes climbs from the minimum of 22% to the maximum of 88%, such a tax combined with those on sales and property may well be considered a "burden."

Before such heavily burdened taxpayers, however, think of moving to a Caribbean island, they should get the answers to at least two questions: First, why are taxes so high? Second, how does national income, which is the basis of tax-paying ability, compare with the tax bill over a time period? Let me make a few comments on each of these questions, with initial reference to state tax collections.

More Services From States

Probably the major reason that taxes have increased during the past half-century with a few exceptions is that we as citizens have been demanding and receiving more services from our state governments. This "more" is both quantitative and qualitative. Because we have demanded more we have had to pay more in taxes wisely preferring the burden of taxation to the greater burden of inflation which usually accompanies rising public debts. You and I personally may not favor this extension of state functions—unless we are directly benefited to an extent greater than the resulting taxes we pay. But we live in a democracy, and when "the will of the people" desires more government, taxpayers have to underwrite the expansion.

The second question has to do with the relation of national income over a period of years to state taxes. Here again one has to use dollar totals which though not offering a satisfactory answer for an individual will give a fairly good idea of tax burden trends. Table I of this article gives state tax collections for selected years since 1941, and since that year tax revenue has increased just about three fold. But in the same 12 years this country's net national product, the basis of tax-paying ability, also has tripled. Thus, since 1941 tax-paying ability has kept pace with state tax collections.

Of course this picture is incomplete. Again one must consider Federal and local taxes; the Federal load is especially heavy for families in the middle and upper income brackets. Estimates will vary somewhat, but it is not far from the mark to say that in 1941 total taxes (Federal, state, and local) were about 13% of net national product. Now they are at least 25%. To put in somewhat different terms: by 1953 total tax revenues were 573% of 1941, whereas net national product by 1953 was only 293% of its 1941 base. These data amply confirm belief that the total tax burden today is much heavier than before World War II.

How this comparision of taxes with income actually works out in individual cases obviously is an individual matter. Persons who have been retired for a decade on fixed dollar incomes find state taxes relatively much heavier. But persons active in business quite possibly have had gross incomes increase at a rate faster than state taxes, indeed faster than total taxes.

Sources of State Tax Revenue

Forty years ago just before World War I total state tax collections were only about $300 million of which one-half came from levies on property. Inheritance taxes brought in a tenth of the total; alcoholic beverages sales and licenses about the same proportion. Taxes on motor vehicles were just getting under way; there were no taxes on motor fuels. The balance of the collections came from a miscellany, predominantly licenses, though a trickle was starting from state taxes on net incomes. Substantial changes had occurred by 1941, and since then additional changes as shown in Table I.

It is important to notice that a number of the tax bases itemized in Table I are also tapped by the Federal government: motor fuels, alcoholic beverages, tobacco products, individual and corporate net incomes, passing of property at death of owner. An invasion of these tax sources is even getting under way by local governments. Income taxes are being used on an increasing scale by municipalities in Pennsylvania, Ohio, and California, and cities are trying out taxes on retail sales, tobacco products, admissions, gasoline, and various businesses. The fact that these local taxes overlap state and Federal taxes results in a substantial total, as has been mentioned.

Taxes on general sales, though used by only 31 states, have brought more revenue than any other one source since 1944. Michigan, for instance, in 1953 drew about 47% of its total taxes from this source, California and Illinois about 40%. This tax cannot help but produce revenue because it usually is levied on the bulk of retail transactions. Its very coverage, however, makes it regressive hitting persons with low incomes harder than those with more ample means.

Among the taxes on specific articles in contrast with those on general sales the taxes on motor fuels easily held first place with revenue of $2 billion. Tax collections from tobacco products of $467 million continued to lead alcoholic beverages by a small margin, though the increase for each over the 1952 sums was so slight as to suggest that these specific taxes may be reaching the point of diminishing returns. Such has been the contention of the liquor industry for several years in light of the heavy additional Federal excises. As far as tobacco products are concerned, seven more states can get in on this profitable source of revenue, and the 41 now using this levy can both increase rates and in many cases extend coverage because frequently only cigarettes are taxed.

Taxes on individual and corporate net incomes brought in $1.8 billion. levied by 31-33 states (a state will not always use both tax bases), the totals for some of the states offered a substantial part of their over-all tax collections. New York, for instance, obtained 50% of its taxes in 1953 from this source, Oregon 48% and Wisconsin 45%. Although 13 states at present tax neither individual nor corporate net incomes, they could enter this field. But as long as Federal rates on these same bases remain high, public opinion probably will restrain legislators from adding this tax source. Much the same argument applies to raising existing state tax rate on net incomes.

Death and gift taxes possibly offer more sociological overtones than any other imposition. Certainly high rates and strict enforcement of such taxes can do about as much to equalize wealth in this country as any other device short of actual confiscation. So far, however, state tax collections from this source have just about kept pace with the increase in population and prices. It may be mentioned that uniform death duties have been pretty much forced on the states by the 80% Federal credit, a form of Federal pressure which could be carried much further if political philosophy turned that way.

TABLE I

State Tax Collections, by Major Sources: 1953, 1952, 1944, and 1941

Tax Source (and no. of states using tax in 1953)	Tax Collections (Amounts in Millions) 1953	1952	1944	1941	% Chge. 1952 to 1953	% Distrib. 1953
General sales & gross recpts. (31)	$2,433	$2,229	$721	$575	9.2	23.1
Motor fuels (48)	2,017	1,870	685	913	7.8	19.1
Alcoholic beverage sales (48)	465	442	267	216	5.4	4.4
Tobacco products (41)	467	449	160	106	4.0	4.4
Motor vehicle & oper. licenses (48)	1.012	924	394	434	9.5	9.6
Indiv. & corp. net income (31, 33)	1,779	1,751	762	422	1.6	16.9
Property (45)	365	370	247	268	—1.3	3.5
Death & gift (47)	222	211	112	118	5.2	2.1
Severance (24)	286	272	71	53	5.4	2.7
Other tax sources	1,496	1,347	646	501	11.1	13.8
Total tax collections	$10,542	$9,857	$4,065	$3,606	7.0	100.0

Reference: **State Tax Collections in 1953** (similar source for prior years), Bureau of the Census, Washington, Aug. 31, 1953. The figures in parentheses after each tax source indicate the number of states using this particular tax base; 31 states taxed individual net incomes, 33 taxed corporate net incomes. The Social Security unemployment compensation tax is not included in this table.

Some State Comparisions

It is quite a temptation in looking over this report by the Bureau of the Census to compare states on a per capita tax collections basis. Comparisons, however, have to be qualified. One cannot assume that if state "A" collects more taxes per capita than state "B" the citizens of the former are worse off because of the heavier burden. The quality of the employees, the roads, public health, education, hospitals, and other state services may be measurably higher in state "A" than "B."

Also, specific functions may not be offered in each state on the same governmental level. In one state the bulk of the public highways may be constructed and maintained by local governments; the same local emphasis may be found with welfare and education. If such is the case total state expenditures and tax collections on a per capita basis may well be lower than in a neighboring state which has removed such functions from local control.

But per capita tax collection figures do at least offer the taxpayers of each state the incentive to ask themselves: "Are we getting our money's worth?" With these qualifications in mind the following data selected from the Census report are offered:

1953 Tax Collections Per Capita

Five highest states—	
Washington	$107.67
Louisiana	101.98
California	100.04
New Mexico	97.13
Nevada	93.36
Five lowest states—	
Missouri	$51.09
New Hampshire	50.12
Kentucky	47.29
Nebraska	42.95
New Jersey	37.04

Last year the two highest states and two lowest were the same as this year, though the dollar amounts were slightly larger in each case. Per capita tax collections for a few other states follow: Illinois $58, Massachusetts $67, New York $74, and Pennsylvania $56.

Forty-one states collected more taxes in 1953 than in fiscal 1952. Of these 16 exceeded the 48-state average increase of 7%. Leading the list were Alabama and Nevada with gains of 20.7% and 17.5%, respectively. On the negative side Utah brought in 8.4% less in taxes than in 1952, South Dakota 7.3% less, and five other states with relatively minor declines in total taxes. Again it must be emphasized that increases or declines in tax collections over a one year period afford no sound basis for interstate comparisons of efficiency of administration or real tax burdens. At the same time striking contrasts continued over a time period do justify taxpayer interest and inquiries.

Will States Taxes Become Heavier?

The answer to this question lies in large part in a combination of the demands of citizens for more state services, the present financial conditions of states, and the quality of state administration.

Biennial legislative sessions on the odd years for most states brought a flood of such meetings in the early months of 1953. For the most part the governor's messages this year were rather optimistic as far as the financial condition of their respective states was concerned. (The governors of only a few states admitted serious conditions.) The continued high level of business activity has brought in good tax revenues from existing rates. And in some states the World War II surpluses offer a cushion against actual operating deficits, though a cushion of diminishing thickness.

But the fact remains that for the 48 states as a group tax collections have not for years covered general expenditures. The difference has been made up by other components of general revenue: Federal aid, charges for state services, and miscellaneous items. (Add trust fund receipts such as unemployment "taxes" and enterprise earnings to *general* revenue, the result is total state revenue.) Moreover, even the total of general revenues has not equalled general expenditures for the past three years—one of the reasons for the three-fold increase in total state debt since 1946.

If anything is to be done about this expenditure-in-excess-of-revenue situation in state governments, there are at least two lines of action for the taxpayer. The first is to bring state budget into balance with a minimum of exceptions. Pressures to this end must be brought for the most part, I believe, by the taxpayers. This means that we as private citizens must inform ourselves directly or through taxpayers associations about the finances of our respective states (and local governments) and maintain an interest in how money is raised and spent. This also means that we must realize that individually or in pressure groups demands usually cannot be made for more or better state services unless we are willing to match such increased expenditures with more taxes. Civic standards of living will vary among states as living standards do among households. The point is that taxpayers should determine the public services they deem necessary and be willing to pay the costs.

The second line of action is closely connected with the first, namely, to get our money's worth as taxpayers. We can have dual-lane highways, air-conditioned schools, safe prisons, modern hospitals, but these can be bought at too high a dollar cost. The key, I believe, lies in the quality of administration in the various state departments. Relative to this point there is an axiom based on years of experience: *We get what we pay for.* This may be colloquial English, but it comes as near the truth as one will find, and it is as applicable to state administration as to household management. Let me point this up.

State government is big business. Last year total revenues of individual states according to Census reports ranged from $35 million for Nevada to $1,776 million for New York. For the 48 states the average was about $350 million. This was and is a lot of money. And how in our democracies are such sums administered? Final determination of the amounts needed is made by state legislators who give a few months (even then part time) usually every other year to the task of government. To such tasks they bring experiences which range from zero to years of public service. Their pay is very nominal, even though for some the per diem rate may be above ususal earnings.

The day-by-day administration of the sums finally approved is under the direction of the governors of the respective states,

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departmental heads, and the office staffs which may or not change in composition with every shift of political winds. As good democrats (a small not a capital "d") we insist that holding public offices shall represent service not profit, and thus, also insist that salaries shall be modest.

One could go into considerable detail, but let me give a composite picture: It is a state government with annual gross revenues and expenditures of about $350 million run by (publically) hired managers called governors, attorneys, comptrollers who at most are paid $25,000 (governors of three states) and average $6,000 to $12,000 a year. (Governors usually are also furnished a house and maintenance.)

What does private business do in comparision? That is, what are we as consumers willing to pay for private goods and services? Here again let me generalize: A private business concern with gross revenues around $350 million a year will pay its top executive $75,000-$125,000 a year, and its several Vice-Presidents (departments heads) $40,000-$75,000.

Although this comparison of salaries in state government with those in private business where similar dollar amounts are involved needs certain qualifications, is not this conclusion in large part justified?: *The American people want top quality government at bargain-basement prices.*

There is no definitive, all satisfying solution to this contradiction. There are, however, certain procedural changes which can help. One is to pay public officials a salary commensurate with positions of similar responsibilities in private business. Second, assure longer terms of office. It is absurd to change top governmental officials every two to six years and expect sound fiscal administration. Third, establish civil service requirement up to the top policy-forming level, but don't make it too difficult to get rid of the inefficient.

Basic, absolutely basic to any revision along the above lines are groups of citizens which are willing to give time, energy, and money to promote good government on every level. In light of the indifference which most of us show toward voting in the primaries and toward the quality of our legislative representatives and public officials, we probably get better government in most instances than we deserve.

Securities Salesman's Corner

By JOHN DUTTON

A Success Story Based Upon Faith in a Sound Idea

June, 1932 was hardly an auspicious time to start an investment advisory business. But J. Henry Helser did just that. Today the firm has 25 offices located throughout Oregon, Washington, and California, with headquarter offices located in Portland, Oregon.

The firm has an unusual method of handling its accounts. The basic approach is that each client has an individual problem. The client's situation is studied and a portfolio of investments is prepared to specifically attempt to obtain the objectives that the customer feels are most important. Acting as investment managers the Helser Company acts as an advisor and suggests the securities to be purchased and sold in each account. A charge of $1.00 a share is made on each purchase and the same rate is charged on each sale. A fee of $10.00 per $1,000 of face value of bonds is charged at the time of each purchase or sale. Several member firms of the New York Stock Exchange execute the orders transmitted to them by the Helser firm; these brokerage firms hold both securities and funds belonging to investor clients and each account is opened in the client's name with a broker selected by the Helser Company and to whom the client has given approval.

The policy of investment is to use only those securities of basic industries in tried and proven companies with emphasis placed on stocks and bonds listed on the New York Stock Exchange.

Another unusual feature of the Helser plan is that it is suggested to each client that his account should be opened on a credit basis, leaving to the discretion of the managers when it might be desirable to borrow funds for the addition of securities to the client's account. Each account has its own reserve funds and the policy also provides for a monthly check to be sent to each client that is based upon the estimated earnings from the account during a full-year period. In addition to the continuing information sent to each client by the brokerage firm that handles the physical property itself, the Helser firm supplies the investment management and material facts to each customer upon which the operations of each account are based.

Considering that this firm started business with only an idea and a mere handful of accounts, and today it serves over 3,500 clients located in nearly every state in the Union, Europe and the Orient, the soundness of their approach to the problem of investment management seems to be fully tested by the events of the past 20 years they have been in business.

From an advertising standpoint the firm recently held an exhibit at the Oregon State Fair which they believe was extremely successful. They estimate that 2,500 people actually entered their booth for conversations about securities. They distributed 8,000 pieces of free literature on behalf of the New York Stock Exchange member firms which handle securities transactions for Helser clients, explaining services of the brokers and the mechanics of security investing. In the booth were displayed a Trans-Lux projector and ticker. A Western Union keyboard attachment was used to flash a message on the Trans-Lux projector that was printed on a specially prepared tape that explained exactly what the machine was, and how stocks were bought and sold on the New York Stock Exchange.

The Helser Company handles small accounts as well as those which are substantial in size. It was the idea of helping the "little fellow," as well as those who had sums running into the millions that first suggested the plan for this company to J. Henry Helser. Today many of his customers are employees of the firm. Others are representatives located in various states throughout the country. The policy of selecting sound securities for each account—analyzing the needs and objectives of each account and charging a flat fee for this service, based upon transactions when they are executed, has proven to be a satisfactory method of solving the investment problems of many people who have tried the Helser plan, and has been instrumental in building this rather unique investment management organization to its present lofty stature.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The offering by the Treasury of a 2¾% bond due Sept. 15, 1961, to raise new money in the amount of $2,000,000,000 was well received by a market which has been built up in recent weeks to levels where almost any kind of an issue put out by the government would be a successful one. The new obligation will result not only in a lengthening of maturity as far as the most recent financing is concerned but it will also show a minor reduction in the coupon rate. This new money raising effort by the Treasury will bring the government debt about as close to the limit as it can comfortably be when allowance is made for the other forms of new money raising. This is the prime reason for the cessation of sales of the series "C" tax notes.

Respite Due in New Financing

With the new money financing, which is pressing the debt limit, out of the way there is not likely to be any other important undertakings for a while by the Treasury aside from refundings. The December operation, the next refunding, may result in a part of this maturity being extended but as a whole it seems as though the government security market is going to have a breather from new offerings and maturity extensions. This should help the outstanding obligations.

Some Price Reaction Expected

Although there are an increasing number of money market followers that are getting aboard the bullish bandwagon because there appears to be no particular sense in fighting it any longer there is a growing feeling among certain of them that some kind of a reaction in prices should be in order. The advance in quotations has been sharp and fast and this usually brings with it a certain amount of indigestion that is not relieved until there is some consolidation which is generally worked out through a period of backing and filling. To be sure, we have had experiences like the present one in the past because, when an advance gets under way, it feeds to a certain extent on its own momentum because sellers pull away from a rising market after the initial resistance levels have been broken through.

Although the market's trend appears to be based on a very solid foundation because of the changed monetary policy which is now towards easier money conditions, and this has been expressed in a tangible way by lower reserve requirements and open market operations, there is, nonetheless, not an unimportant number of money market followers who believe there will have to be a fairly sizable shake-out in quotations of government securities in the not distant future. They point out that the investment buying, while substantial at times, has not been and will not be sizable enough to support the levels that are being talked about because buyers are showing a reluctance to step up and take securities in an advancing market. They also indicate that the professional element in the market, which is still very important, has to be slowed down before prospective buyers will be inclined to put important funds into certain Treasury issues.

It should be borne in mind that those who are looking for a reaction in prices of government obligations are not bearish on these securities but they believe the technical position of the market will have to be improved before important investment buying will make an appearance in the picture. It could be also that there is nothing more disappointed than a sold out bull wishing for an opportunity to get back in again at lower prices.

The Bullish Argument

On the other hand there are those who believe that the government market will continue to move ahead because there will be more funds available for investment as time goes along and this will force investors into the market in order to get earnings which will not be forthcoming from former sources of income. They also are of the opinion that it will not be too long before reserve requirements will be reduced again and the prime rate as well as the rediscount rate will be lowered. These forces, all of which make for easier money conditions, are among the more important bullish factors that are being cited by the bulls on the government market. Likewise they are not looking for any important reaction in prices of Treasury obligations. They point out that if and when there is backing and filling in prices of government securities it will not be of substantial proportions and these set-backs, when they do develop, should be availed of to build position in one's holdings of Treasury obligations.

Market Briefs

The state funds which have been the important buyers of the longest-term issues, according to reports, have been pushed out of their top position by private pension funds which have been very active in the discount 2½s. Some of these purchases, it is indicated, represent switches from short-term securities, with the balance of the funds being accounted for by new money.

Commercial banks, those in the larger money centers as well as the smaller out-of-town ones, continue to lengthen maturities, with the longer intermediate term issues getting most of this buying at the present time.

Saunders, Stiver Adds

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio—Irma H. Bender has been added to the staff of Saunders, Stiver & Co., Terminal Tower Building, members of the Midwest Stock Exchange.

With Bache & Co.

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, Ohio—Frank J. Casey has become connected with Bache & Co., Dixie Terminal Building. He was formerly with W. E. Hutton & Co. as Manager of their Wilmington, Ohio office.

Joins Hornblower & Weeks

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio—Robert E. Law has become affiliated with Hornblower & Weeks, Union Commerce Building.

With Frank L. Edenfield

(Special to THE FINANCIAL CHRONICLE)

MIAMI, Fla.—Albert F. DuVerger is now connected with Frank L. Edenfield & Co., 8340 Northeast Second Avenue.

NASD District 13 Receives Slate

District No. 13 of The National Association of Securities Dealers announces that Raymond D. Stitzer, Chairman, Philip L. Carret,

H. Warren Wilson   Oliver J. Troster

Robert L. Lewis, John H. Kitchen and Orland K. Zeugner were appointed as a Nominating Committee to make nominations for two Governors and four Committeemen to succeed those whose terms of office will expire on Jan. 15, 1954.

This Committee has submitted the following:

Board of Governors

H. Warren Wilson, Union Securities Corp., to succeed Carl Stolle, G. A. Saxton & Co., Inc. Oliver J. Troster, Troster, Singer & Co., to succeed, Paul Devlin, Blyth & Co., Inc.

District Committee

Ernest W. Borkland, Jr., Tucker, Anthony & Co., to succeed Charles M. Kearns, Kearns & Williams. Allen J. Nix, Riter & Co., to succeed, Joseph S. Nye, Cosgrove, Miller & Whitehead; Robert C. Johnson, Kidder, Peabody & Co.; to succeed, Walter W. Wilson, Morgan Stanley & Co. Philip H. Gerner, George D. B. Bonbright & Co., to succeed Nathan Oppenheimer, Jr., Vietor, Common, Dann & Co.

Additional candidates may be nominated Oct. 22. If no additional candidates are proposed, the candidates nominated by the Nominating Committee will be considered duly elected.

With E. F. Hutton Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Frederic Cimerblatt has become affiliated with E. F. Hutton & Company, Board of Trade Building. He was formerly with Paul H. Davis & Co. and Hornblower & Weeks.

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Discrimination Against Railroad Employees Under Federal Laws

By FRANK R. HURLBUTT
Member, New York and West Virginia State Bars

Calling Federal laws relating to railroad employees "class legislation," Mr. Hurlbutt says they operate to exclude railroad employers and qualified employees from benefits of the general laws governing labor relations, the Social Security Act, and laws of various states providing for unemployment compensation. Discusses various Acts relating to railroad employees, and advocates the railroads and their employees join in campaign for repeal of Federal legislation discriminating against them.

The hodge-podge of Federal laws applying to railroads and their employees, as distinguished from laws affecting non-carrier employers and employees, has been concocted under, and its purpose disguised with devilish cunning in the fantastic phraseology and verbosity of, the following Acts of Congress:

Railway Labor Law.
Railroad Retirement Act.
Railroad Retirement Tax Act.
Railroad Unemployment Insurance Act.

These four Acts dictate and control all railroad employer-employee relations, and provide for certain payments upon the retirement or unemployment of railroad employees, and payments upon death to certain of their survivors. They also levy exorbitant special taxes upon employers and employees alike, and exact additional "contributions" from the employers, from which (theoretically) the various so-called "benefits" are paid.

Frank R. Hurlbutt

This "class" legislation (together with the other Federal laws mentioned below) operates to exclude railroad employers and qualified employees from the application of general Federal laws governing labor relations and wages and hours of work, the "Social Security Act," and the laws of the various States providing for unemployment compensation.

The last three of the Acts above listed were originally enacted in the early, rank years of the "New Deal"; undoubtedly with a political eye to eventual government ownership of railroads. As might be expected of legislation enacted at such a time and under such dictation, these Acts were designed to perpetuate political power; not only of the publicly elected politicians but also of the plutocratic bosses of the nation-wide railway labor organizations.

The Railway Labor Law

As the Railway Labor Law is possibly (without implied admission) no worse, at the present time, than other labor legislation for the employers and the public as a whole, it will be eliminated from further consideration herein, and attention will be directed to the other three Acts above listed; and, it is believed, correctly classified.

It is probably not generally known that in each of these three Acts, the definition of "employer" includes *"any railway labor organizations national in scope, . . . and their State and National legislative committees and their general committees and their insurance departments and their local lodges and divisions."*

The term "employee" as defined in the Acts, includes "any individual in the service of one or more employers for compensation; provided, however, that the term 'employee' shall include an employee of a local lodge or division defined as an employer . . . only if he was in the service of or in the employment relation to a carrier on or after Aug. 29, 1935." One more definition is important. It is—"The term 'employee' includes an officer of an employer."

Construing the last two paragraphs, every officer and employee of all railway labor organizations, national in scope (except subordinate officers who are employees of a local lodge or division), *regardless of whether they are railroad employees* are classed as employees for the purposes of the Acts. Thus it was that such officers and employees obtained the privilege of collecting retirement and unemployment benefits, as *railroad employees,* from the United States Government, with related survivor benefits for their families. In this connection, it should be noted that the Railroad Retirement Act was originally enacted prior to the passage of the Social Security Act.

So that the power of the big labor bosses could not be seriously threatened, the Acts classified as "employee representatives" (and at the same time penalized) officers and official representatives of railway labor organizations *not national in scope.* An "employee representative," is defined as "any officer or official representative of a railway labor organization *other than a labor organization included in the term 'employer'* as defined" in the Acts. While "employee representatives" are classified as employees and thus permitted a "take" under the Acts, they are penalized 100% in special taxes for the doubtful privilege. How politic the "big boys" were in discouraging competition.

Turning now to the respective Acts in question, attention is directed to the Railroad Retirement Tax Act.

Railroad Retirement Tax Act

This Act was originally adopted as the "Carriers Taxing Act of 1935." It was later repealed and re-enacted as the "Carriers Taxing Act of 1937." By Act of Feb. 10, 1939, it was incorporated into the Internal Revenue Code, and under Amendment of July 31, 1946, it was designated the "Railroad Retirement Tax Act," its present title.

Under this Act the employees of railroads are required to pay 6¼% of the first $300 of their average monthly compensation, as a special tax into the Internal Revenue Department, *which they are not permitted to deduct* in computing net income for income tax purposes. The compensation of almost all regular railroad employees now averages at least $300 per month, and they are thus taxed $18.75 per month. The railroads pay the same amount so that the special tax collected by the Government on account of each railroad employee (not including "employee representatives") is $37.50 per month.

The rate of the special tax levied on "employee representatives," above identified, is 12½% and on the employer labor organizations 6¼%. Thus the special tax collected by the Government on account of employee representatives is $56.25 per month, based upon an average monthly compensation of $300.

While these special Federal taxes on carriers, employees and employee representatives are not set aside as a trust fund for the payment of retirement and death benefits under the Railroad Retirement Act, the tax Act in question was passed to provide (theoretically) funds for the payment of such benefits.

Railroad Retirement Act

The Railroad Retirement Act (originally passed in 1934) lists five classes of individuals entitled to retirement benefits; provided that they shall have completed 10 years of service. These classes include "employee representatives," who, in spite of the 100% greater tax, receive no greater benefits.

The first designated class covers individuals (male or female) of 65 years of age or over. The second designated class, added in 1946, covers women of 60 years of age and over with 30 years of service. As the maximum number of "years of service" applicable in calculating retirement benefits is 30, the only difference between men and women, each with 30 years of service, is the five year age advantage of the traditional weaker sex. Thus a man of 65 years and a women of 60 years, each with 30 years of service, are entitled to the same amount of retirement benefits, which is the maximum amount payable under any classification. For the purpose of this discussion, the other three classes, entitled to smaller retirement benefits, need not be considered.

The Retirement Act designates the retirement benefits as "annuities," which, of course, they are not. For the purpose of the Act, however, an annuity is defined as a monthly sum, which is computed by multiplying an individual's "years of service" by the following percentages (in force since 1951) of his average monthly compensation, to wit:

2.75% of the first $50.00;
2.07% of the next $100.00, and 1.38% of the next $150.00.

Therefore, the highest possible retirement annuity, based upon average monthly compensation of $300 and 30 years of service, payable after an employee (or employee representative) reaches the age of 65 or 60 years, as the case may be, is $165.60 per month.

As above pointed out, for this so-called retirement "benefit," the employee pays $18.75 per month and the Government receives $37.50 per month (another $18.75 from the employer). In the case of employee representatives, they pay $37.50 and the Government receives $56.25 per month.

A recent amendment of the Act provides for an annuity to the spouse of an annuitant, if such spouse is either 65 years old or supports a child under 18 years; limited, however, to a maximum of $40.00 per month. As a result, the combined maximum annuities (which could apply only under most unusual conditions) of an employee and spouse could reach, but never exceed, $205.60 per month. A minimum is also provided for so that these combined annuities shall not be less than the aggregate of retirement and survivor benefits under the Social Security Act ($168.50).

Survivor Benefits

Provisions are made in the Railroad Retirement Act for certain lump sum payments and annuities to widows, widowers, and children of employees, provided the children are under 18 years and unmarried (and go to school after reaching 16 years), or where there is no widow, widower, or children to the parents, and in certain cases to other designated persons. The lump sum payments are calculated pursuant to complicated formulae, and are subject to such credits, deductions and conditions that, in most instances, they are not of great value to the employees' surviving widows, widowers, children or parents. A full discussion here would be confusing rather than helpful.

The survivor annuities for widows, widowers, and children or parents are based upon the amount of the decedent's compensation. The amount of each person's annuity is not important for the purpose of this discussion, as the aggregate thereof for a family group is limited to $150.00 per month; subject, however, to an increase to $168.75, if otherwise the family group would not receive combined annuities equal to those to which they would be entitled under the Social Security Act, if applicable.

Railroad Retirement Account

The special Federal taxes imposed by the Railroad Retirement Tax Act are required to be collected by the Bureau of Internal Revenue and paid into the Treasury of the United States as "internal revenue collections." They are not allocated, except to the extent hereinafter mentioned, to the payment of retirement or survivor annuities but are mingled with other internal revenue collections and are thus available for the payment of government expenses generally.

The Act, however, provides for the creation of an *account* on the *books* of the Treasury Department, known as the "Railroad Retirement Account." In order to provide for the payment of retirement and survivor annuities, which may become payable *during any fiscal year,* there is authorized to be appropriated to the account for each such fiscal year an amount estimated to be sufficient (with a reasonable margin for contingencies) for such purpose. The Railroad Retirement Board is required to submit annually to the Bureau of the Budget an estimate of the appropriation to be made to the Account. These are the only provisions in the various Acts allowing allocating any of the special taxes collected under the tax Act for the payment of the annuities, despite the published statements of the U. S. Railroad Retirement Board that "Congress appropriates the *full amount collected to the Railroad Retirement Board,"* and that "The funds not needed immediately for benefit payments *are held in a reserve account."*

Investment of Funds (Credits) in the Railroad Retirement Account

At the request and direction of the Railroad Retirement Board, the Secretary of the Treasury is required to invest *such portion of the amounts credited to the account* as, in the judgment of the Board, *is not immediately* required for the payment of the annuities, in interest bearing *obligations of the United States* or *in obligations guaranteed* as to both principal and interest *by the United States.*

It will thus be readily seen that, of all the millions of dollars collected in special taxes each year from the railroads and abstracted from the pay envelopes of their employees, only a fraction thereof is required to be appropriated each year, by a book account only, to the payment of annuities; and that such part of the annual allocation not immediately needed may be invested but only in obligations of, or guaranteed by, the United States.

Thus the railroad employees must depend solely for their expected benefits on the ability of a government, which continually spends more than its income, to pay such benefits sometime in the future, before it becomes bankrupt under a *deficit* fiscal policy.

It does not take a financial genius to understand that the Retirement Act permits the Government either (a) to use in the first instance or (b) to borrow from itself to use, substantially all of the funds annually collected under the Railroad Retirement Tax Act, for the payment of its obligations generally (including the payment of the identical obligations in which the funds are required to be invested); and for financing other "social" misadventures.

Railroad Unemployment Insurance Act

On June 25, 1938, after the passage of the first three Acts above listed, Congress passed the Railroad Unemployment Insurance Act. Under it the railroads are required to make "contributions" (in addition to the exhorbitant taxes under the tax Act) of a minimum of ½% and a maximum of 3% of up to $300 of each employee's monthly compensation (depending on the annual balance in the Railroad Unemployment Insurance Account, hereinafter referred to), to provide railroad employees with unemployment insurance. Employee representatives are required to make "contributions" of a flat 3% (in addition to their 12½% tax), but no "contributions" are exacted from the employees, as such.

These so-called contributions are collected by the Railroad Retirement Board and deposited by it with the Secretary of the Treasury. Such part as equals 0.2% of the *total compensation on which the contributions are based* (not 0.2% of the contributions) is deposited to the credit of the "Railroad Unemployment Insurance *Administration* Fund," and used together with other funds, advanced by the Secretary of the Treasury or appropriated by Congress for the purpose, to pay the expenses of *administering* the Act. *All funds credited to the account are required to be mingled and undivided.* The balance of the contributions is credited to the "Railroad Unemployment Insurance Account."

The Railroad Unemployment Insurance Account is also a book account only, *required* to be maintained in the "Unemployment Trust Fund" established under the Social Security Act. All moneys credited to and mingled in the Railroad Unemployment Insurance Account are thus again mingled with moneys belonging to the various State unemployment funds and moneys appropriated to the Federal Unemployment Account. Thus railroad unemployment insurance moneys lose their identity as a fund appropriated expressly for the payment of unemployment insurance to railroad employees.

The Railroad Unemployment Insurance Act provides for the payment of unemployment and sick benefits to employees who receive over $300 *per year.* The benefits range from $3.00 minimum to $7.50 maximum per day, based upon compensation ranging from $300 to $3,600 per year, except in maternity cases, where 1½ times the pertinent rate is paid for 28 days. These benefits are limited to 130 days in any one year, except for a maternity period where the limit is 115 days, and are subject to many disqualifying conditions.

The funds in the so-called "Unemployment Trust Fund," with which the "contributions" exacted under the Railroad Unemployment Insurance Act are mingled, are subject to the same hocus-pocus, prestidigitation and honey-fuggling as are the funds in the Railroad Retirement Account. The government can borrow from itself all such funds as are not currently needed, by investing the

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Discrimination Against Railroad Employees Under Federal Laws

By FRANK R. HURLBUTT

Member, New York and West Virginia State Bars

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Frank R. Hurlbutt

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It is probably not generally known that in each of these three Acts, the definition of "employer" includes "*any railway labor organizations national in scope, . . . and their State and National legislative committees and their general committees and their insurance departments and their local lodges and divisions.*"

The term "employee" as defined in the Acts, includes "any individual in the service of one or more employers for compensation; provided, however, that the term 'employee' shall include an employee of a local lodge or division defined as an employer . . . only if he was in the service of or in the employment relation to a carrier on or after Aug. 29, 1935." One more definition is important. It is—"The term 'employee' includes an officer of an employer."

Construing the last two paragraphs, every officer and employee of all railway labor organizations, national in scope (except subordinate officers who are employees of a local lodge or division), *regardless of whether they are railroad employees* are classed as employees for the purposes of the Acts. Thus it was that such officers and employees obtained the privilege of collecting retirement and unemployment benefits, as *railroad employees*, from the United States Government, with related survivor benefits for their families. In this connection, it should be noted that the Railroad Retirement Act was originally enacted prior to the passage of the Social Security Act.

So that the power of the big labor bosses could not be seriously threatened, the Acts classified as "employee representatives" (and at the same time penalized) officers and official representatives of railway labor organizations *not national in scope*. An "employee representative," is defined as "any officer or official representative of a railway labor organization *other than a labor organization included in the term 'employer'* as defined" in the Acts. While "employee representatives" are classified as employees and thus permitted a "take" under the Acts, they are penalized 100% in special taxes for the doubtful privilege. How politic the "big boys" were in discouraging competition.

Turning now to the respective Acts in question, attention is directed to the Railroad Retirement Tax Act.

Railroad Retirement Tax Act

This Act was originally adopted as the "Carriers Taxing Act of 1935." It was later repealed and re-enacted as the "Carriers Taxing Act of 1937." By Act of Feb. 10, 1939, it was incorporated into the Internal Revenue Code, and under Amendment of July 31, 1946, it was designated the "Railroad Retirement Tax Act," its present title.

Under this Act the employees of railroads are required to pay 6¼% of the first $300 of their average monthly compensation, as a special tax into the Internal Revenue Department, *which they are not permitted to deduct* in computing net income for income tax purposes. The compensation of almost all regular railroad employees now averages at least $300 per month, and they are thus taxed $18.75 per month. The railroads pay the same amount so that the special tax collected by the Government on account of each railroad employee (not including "employee representatives") is $37.50 per month.

The rate of the special tax levied on "employee representatives," above identified, is 12½% and on the employer labor organizations 6¼%. Thus the special tax collected by the Government on account of employee representatives is $56.25 per month, based upon an average monthly compensation of $300.

While these special Federal taxes on carriers, employees and employee representatives are not set aside as a trust fund for the payment of retirement and death benefits under the Railroad Retirement Act, the tax Act in question was passed to provide (theoretically) funds for the payment of such benefits.

Railroad Retirement Act

The Railroad Retirement Act (originally passed in 1934) lists five classes of individuals entitled to retirement benefits; provided that they shall have completed 10 years of service. These classes include "employee representatives," who, in spite of the 100% greater tax, receive no greater benefits.

The first designated class covers individuals (male or female) of 65 years of age or over. The second designated class, added in 1946, covers women of 60 years of age and over with 30 years of service. As the maximum number of "years of service" applicable in calculating retirement benefits is 30, the only difference between men and women, each with 30 years of service, is the five year age advantage of the traditional weaker sex. Thus a man of 65 years and a women of 60 years, each with 30 years of service, are entitled to the same amount of retirement benefits, which is the maximum amount payable under any classification. For the purpose of this discussion, the other three classes, entitled to smaller retirement benefits, need not be considered.

The Retirement Act designates the retirement benefits as "annuities," which, of course, they are not. For the purpose of the Act, however, an annuity is defined as a monthly sum, which is computed by multiplying an individual's "years of service" by the following percentages (in force since 1951) of his average monthly compensation, to wit:

2.75% of the first $50.00;
2.07% of the next $100.00,
and 1.38% of the next $150.00.

Therefore, the highest possible retirement annuity, based upon average monthly compensation of $300 and 30 years of service, payable after an employee (or employee representative) reaches the age of 65 or 60 years, as the case may be, is $165.60 per month.

As above pointed out, for this so-called retirement "benefit," the employee pays $18.75 per month and the Government receives $37.50 per month (another $18.75 from the employer). In the case of employee representatives, they pay $37.50 and the Government receives $56.25 per month.

A recent amendment of the Act provides for an annuity to the spouse of an annuitant, if such spouse is either 65 years old or supports a child under 18 years; limited, however, to a maximum of $40.00 per month. As a result, the combined maximum annuities (which could apply only under most unusual conditions) of an employee and spouse could reach, but never exceed, $205.60 per month. A minimum is also provided for so that these combined annuities shall not be less than the aggregate of retirement and survivor benefits under the Social Security Act ($168.50).

Survivor Benefits

Provisions are made in the Railroad Retirement Act for certain lump sum payments and annuities to widows, widowers, and children of employees, provided the children are under 18 years and unmarried (and go to school after reaching 16 years), or where there is no widow, widower, or children to the parents, and in certain cases to other designated persons. The lump sum payments are calculated pursuant to complicated formulae, and are subject to such credits, deductions and conditions that, in most instances, they are not of great value to the employees' surviving widows, widowers, children or parents. A full discussion here would be confusing rather than helpful.

The survivor annuities for widows, widowers, and children or parents are based upon the amount of the decedent's compensation. The amount of each person's annuity is not important for the purpose of this discussion, as the aggregate thereof for a family group is limited to $160.00 per month; subject, however, to an increase to $168.75, if otherwise the family group would not receive combined annuities equal to those to which they would be entitled under the Social Security Act, if applicable.

Railroad Retirement Account

The special Federal taxes imposed by the Railroad Retirement Tax Act are required to be collected by the Bureau of Internal Revenue and paid into the Treasury of the United States as "internal revenue collections." They are not allocated, except to the extent hereinafter mentioned, to the payment of retirement or survivor annuities but are mingled with other internal revenue collections and are thus available for the payment of government expenses generally.

The Act, however, provides for the creation of an *account* on the *books* of the Treasury Department, known as the "Railroad Retirement Account." In order to provide for the payment of retirement and survivor annuities, which may become payable *during any fiscal year*, there is authorized to be appropriated to the account for each such fiscal year an amount estimated to be sufficient (with a reasonable margin for contingencies) for such purpose. The Railroad Retirement Board is required to submit annually to the Bureau of the Budget an estimate of the appropriation to be made to the Account. These are the only provisions in the various Acts allowing allocating any of the special taxes collected under the tax Act for the payment of the annuities, despite the published statements of the U. S. Railroad Retirement Board that "Congress appropriates the *full amount collected to the Railroad Retirement Board*," and that "The funds not needed immediately for benefit payments *are held in a reserve account*."

Investment of Funds (Credits) in the Railroad Retirement Account

At the request and direction of the Railroad Retirement Board, the Secretary of the Treasury is required to invest *such portion of the amounts credited to the account* as, in the judgment of the Board, *is not immediately* required for the payment of the annuities, in interest bearing *obligations of the United States* or in *obligations guaranteed* as to both principal and interest *by the United States*.

It will thus be readily seen that, of all the millions of dollars collected in special taxes each year from the railroads and abstracted from the pay envelopes of their employees, only a fraction thereof is required to be appropriated each year, by a book account only, to the payment of annuities; and that such part of the annual allocation not immediately needed may be invested but only in obligations of, or guaranteed by, the United States.

Thus the railroad employees must depend solely for their expected benefits on the ability of a government, which continually spends more than its income, to pay such benefits sometime in the future, before it becomes bankrupt under a *deficit* fiscal policy.

It does not take a financial genius to understand that the Retirement Act permits the Government either (a) to use in the first instance or (b) to borrow from itself to use, substantially all of the funds annually collected under the Railroad Retirement Tax Act, for the payment of its obligations generally (including the payment of the identical obligations in which the funds are required to be invested); and for financing other "social" misadventures.

Railroad Unemployment Insurance Act

On June 25, 1938, after the passage of the first three Acts above listed, Congress passed the Railroad Unemployment Insurance Act. Under it the railroads are required to make "contributions" (in addition to the exhorbitant taxes under the tax Act) of a minimum of ½% and a maximum of 3% of up to $300 of each employee's monthly compensation (depending on the annual balance in the Railroad Unemployment Insurance Account, hereinafter referred to), to provide railroad employees with unemployment insurance. Employee representatives are required to make "contributions" of a flat 3% (in addition to their 12½% tax), but no "contributions" are exacted from the employees, as such.

These so-called contributions are collected by the Railroad Retirement Board and deposited by it with the Secretary of the Treasury. Such part as equals 0.2% of the *total compensation on which the contributions are based* (not 0.2% of the contributions) is deposited to the credit of the "Railroad Unemployment Insurance *Administration* Fund," and used together with other funds, advanced by the Secretary of the Treasury or appropriated by Congress for the purpose, to pay the expenses of *administering* the Act. *All funds credited to the account are required to be mingled and undivided.* The balance of the contributions is credited to the "Railroad Unemployment Insurance Account."

The Railroad Unemployment Insurance Account is also a book account only, *required* to be maintained in the "Unemployment Trust Fund" established under the Social Security Act. All moneys credited to and mingled in the Railroad Unemployment Insurance Account are thus again mingled with moneys belonging to the various State unemployment funds and moneys appropriated to the Federal Unemployment Account. Thus railroad unemployment insurance moneys lose their identity as a fund appropriated expressly for the payment of unemployment insurance to railroad employees.

The Railroad Unemployment Insurance Act provides for the payment of unemployment and sick benefits to employees who receive over $300 *per year*. The benefits range from $3.00 minimum to $7.50 maximum per day, based upon compensation ranging from $300 to $3,600 per year, except in maternity cases, where 1½ times the pertinent rate is paid for 28 days. These benefits are limited to 130 days in any one year, except for a maternity period where the limit is 115 days, and are subject to many disqualifying conditions.

The funds in the so-called "Unemployment Trust Fund," with which the "contributions" exacted under the Railroad Unemployment Insurance Act are mingled, are subject to the same hocus-pocus, prestidigitation and honey-fuggling as are the funds in the Railroad Retirement Account. The government can borrow from itself all such funds as are not currently needed, by investing the

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funds in U. S. obligations. No other investments may be made.

The Act *requires* that the Unemployment Trust Fund shall be invested as *a single fund* in obligations of, or guaranteed by, the United States, but that the Secretary of the Treasury shall maintain a separate *book account* for the Railroad Unemployment Insurance Account and credit the same with a proportionate part of the earnings of the fund. This, of course, is a distinct advantage to a railroad employee, because it enables the government to again borrow this book account interest to pay off in ink (red) the obligations which produce this interest on paper.

Taxes for Old-Age Assistance Under the Social Security Act

Employees generally (not including railroad employees) are required to pay 1½% (instead of the 6¼% levied on railroad employees) of the first $300 of their monthly compensation, as a special tax into the Internal Revenue Department for the purposes of the Social Security Act. Assuming a monthly wage of $300, employees generally are taxed $4.50 of that amount, instead of the $18.75 levied on railroad employees and the $37.50 levied on employee representatives. Employers are also taxed 1½%, the same as are the employees.

Federal Old Age and Survivors Insurance Benefits for Employees Generally

The Social Security Act, which excludes railroad employees other than certain of those who are not entitled to benefits under the Railroad Retirement Act, provides for old-age benefits, under certain specified conditions, to a man who has attained the age of 65 years, and also to his wife if she is 65 and to his children under 18 years. It also provides for survivor benefits to his widow and children, or where there is no qualified widow or children, to his parents. A small lump sum designed to cover funeral expenses is also provided for.

A man's "primary benefit" determined pursuant to a specified formula, constitutes the basis for fixing the amount of survivor benefits for the wife, children and parents. As the Act, however, fixes a maximum of total benefits for a family unit of $168.75, no individual benefit amounts need be considered. We are now considering maximum benefits under the two Acts.

Unemployment Insurance for Employees Generally

As above pointed out, there is no Federal unemployment compensation law, as such, providing for unemployment compensation direct to employees generally. Except in special instances, as under the Railroad Unemployment Insurance Act, unemployment compensation is handled by State agencies. The Social Security Act, however, provides for grants to States, at the rate of $80 million per year for unemployment compensation *administration*. Such grants are payable only to States which have unemployment compensation laws *approved by the Secretary of Labor*. The joker here is that every State unemployment compensation law, in order to meet the approval of this above-mentioned Federal bureaucrat, must provide (among many other things) for the immediate payment of all money received in the *State* unemployment fund to the Secretary of the Treasury for credit to the *Federal* "Unemployment Trust Fund" established under the Social Security Act. Thus it will be obvious that no State can get Federal aid for the *administration* of its unemployment compensation law, unless all the money collected by the State agency from citizens of that State is turned over to the Federal Treasury and mingled with the funds of other States, funds credited to the Railroad Unemployment Insurance Account and funds credited to the Federal Unemployment Account. By this means State funds are indirectly made available for Federal expenses generally, including payment of the cost of carrying on the many fuzzy-headed "social" experiments now burdening the American people by authority of Federal law. Of course, there was no opportunity for coercion here when votes were needed for passage of legislation authorizing such experiments.

Without an exhaustive study of the various State laws, and because of certain unknown factors, it is impossible to accurately compare the benefits to employees generally under the various State unemployment compensation laws with those available to railroad employees under the Railroad Unemployment Insurance Act; therefore, no comparison will be attempted.

Comparison of Benefits Under the Railroad Retirement and Social Security Acts

Comparing the benefits under the Railroad Retirement Act with those under the Social Security Act, and assuming the maximum compensation bases and years of service, we find a startling discrepancy in the cost of the respective benefits.

Retirement Benefits

A railroad employee will have paid $18.75 per month for retirement annuities for himself and his "qualified" spouse totaling a maximum of $205.60 per month. Employees generally under the Social Security Act will have paid $4.50 per month for retirement insurance benefits for himself and family totaling a maximum of $168.50 per month.

Thus a railroad employee pays an additional $14.25 per month for additional retirement benefits of only $37.10 per month.

Survivor Benefits

The maximum survivor benefits under each Act are exactly the same—$168.50, for which the railroad employee pays $14.25 more than his Social Security brother. In other words, the railroad employee pays an additional $14.25 per month for zero of survivor benefits per month.

Conclusion

From the foregoing analysis, it would seem that the railroads, railroad employees and employee representatives should join forces in a campaign for the repeal of the four Acts above listed which affect and prejudice them. It is assumed that the big labor bosses of nationwide railway labor organizations would not be interested in such a program. With these Acts eliminated, the general Federal laws governing labor relations, wages and hours of work and social security, and the various State unemployment laws, would apply to the railroads, their employees and the employee representatives, much to the advantage to all three groups (particularly the latter).

Railroad employees would then be entitled to the regular social security benefits at the substantially lower rate of tax. With the prejudicial railroad legislation discarded, the regular social security benefits could be supplemented by private pension plans, which the railroads could well afford to work out on such basis as would, together with social security payments, give their employees substantially greater benefits, at no greater cost to the railroads. Group insurance might also be put in force either with or independent of such private pension plans.

Certainly for the total amount that the railroads and their employees are now being taxed under the Railroad Retirement Tax Act, benefits substantially higher than under the Railroad Retirement Act could be provided.

It would seem that the additional amount of $14.25 per month which it now costs railroad employees to procure additional retirement annuities of only $37.10 per month and survivor benefits of zero could be put to better use.

New Foreign Currency Firm Announced

Lionel Perera has announced the formation of the partnership of Lionel Perera, Manfra & Brookes, to specialize in the field of foreign currencies, foreign exchange, remittances abroad at favorable rates, and domestic and foreign securities. The firm's head, Lionel Perera, is the son of the late Lionello Perera, well known and beloved international banker, who served so many years as the banker and financial advisor for the foreign born population of this country.

Lionel Perera

This new firm of Lionel Perera, Manfra & Brookes has no connection whatsoever with Perera Company, owned by Guido Perera as sole proprietor until his lamentable death, and now recently sold to interests not previously associated with Perera Company nor with the Perera family.

Lionel Perera served as a Major in the Army of the United States during World War II, on the staff of the late General George Patton as Chief Military Government Financial Officer for the Third U. S. Army. In this capacity he was responsible among other things for the reopening of banks, and the freezing of Nazi foreign exchange assets in territory occupied by the Third Army, and was one of the first to discover and catalogue the huge store of currency and gold uncovered in the salt mine at Merkers, Germany. He is past President of the Harvard Business School Club of N. Y. and is Chairman of the Board of Managers of the YMCA Schools.

Associated in partnership with Lionel Perera will be three foreign currency specialists, Joseph Manfra, John Brookes and Anthony Mollicone. Messrs. Manfra and Mollicone received their background and training first with the banking firm of Lionello Perera and Company and more recently with Perera Company. Joe Manfra has served for the past several years as Chief Executive Officer of Perera Company during the illness and after the death of Guido Perera. Mr. Brookes has spent all his business life in the foreign currency field and is a well known figure in the Rockefeller Center area.

The new firm of Lionel Perera, Manfra and Brookes will have its main office at 25 Beaver Street (entrance also from 58 New Street), and its Rockefeller Center Office at 30 Rockefeller Plaza (entrance from 48 West 50th Street). It will serve the foreign currency needs of tourists and travelers, banks, travel bureaus, steamship and air lines.

With Hannaford Talbot

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Robert J. Brandt has become affiliated with Hannaford & Talbot, 634 South Spring Street. He was formerly with Paine, Webber, Jackson & Curtis.

Railroad Securities

New York, Chicago & St. Louis

As 1953 draws to a close and it becomes increasingly evident that even with some tapering off in traffic in the final months the railroads collectively will set a new record peak for net income, considerable interest has been generated as to the possibility of some further good dividend news. Many railroads have increased their dividend rates so far this year and just a few weeks ago **Louisville & Nashville** declared a year-end extra of $1.00 a share—this was double the 1952 year-end extra. In many quarters it has been expected that **Southern** would be able to improve on the $2.50 rate set when the stock was split a few months ago. The meeting was held Tuesday, Oct. 27, too late to report the results in this column. Directors of **Santa Fe** will presumably act on their usual year-end declaration in November.

With the substantial number of increases and extras that have been coming along, particular interest centers around the possible liberalization of the Nickel Plate (New York, Chicago & St. Louis) payment when the directors next meet around the middle of November. Nickel Plate over a long period of years has consistently been a high earning property. Financially, however, it had its problems. During the depression years it was plagued by recurring bond maturities and in solving these, substantially reducing the outstanding non-equipment debt in the process, it was necessary to forego dividend payments on the 6% cumulative preferred stock. When the debt problem was licked the company had to start to work paying off the accruals on the preferred. This process was not completed until 1951, and final payment was financed through a serial bank loan.

With all of these financial burdens the company was not able to break the common stock dividend drought, which extended back through 1932, until last year. Because of heavy cash requirements for equipment maturities and instalments on the bank loans, and the need to build up finances, a conservative rate of $2.00 a share annually was obviously necessary at the outset. This cash rate still continues, supplemented earlier this year by a 10% stock distribution. Bank loans were eliminated, and working capital bolstered, by the sale in February 1953 of $10 million of mortgage bonds. Now that the financial picture has been cleaned up to such an extent it is felt in many quarters that the company is in a position safely to pass along to common stockholders a larger proportion of reported earnings.

Nickel Plate is to a considerable degree a high-speed intermediate carrier, connecting the western gateways with the eastern seaboard through its connections at Buffalo. It also has a considerable stake in the heavy goods industries of the Great Lakes area and vastly improved its position with respect to the profitable bituminous coal movement through lease of Wheeling & Lake Erie a few years ago. It handles very little passenger business, has a relatively long average haul on freight, and a minimum mileage of low density branch lines. It is, therefore, essentially and inherently an efficient operation. Indicative of its status in this respect it consistently has a transportation ratio well below, and a profit margin well above, the industry average even without benefit of extensive dieselization.

Over the past 10 years earnings on the common stock have averaged $5.38 a share, after adjustment for the five-for-one split in 1951 and the 10% stock dividend in July 1953. On the same basis earnings last year amounted to $8.15 a share. Gross revenues have been up so far this year and for the nine months through September the transportation ratio was pared somewhat. Maintenance outlays were up, however, and Federal income taxes were almost $2 million higher, thus retarding the rise in earnings. Share results for the period came to $6.01 compared with $5.43 a year earlier. Presumably there will be some falling of in the final three months but for the year as a whole the earnings should at least match the 1952 results. It is felt in many quarters that such earnings could support more generous dividends.

G. H. Walker & Co. to Open Office in Clayton

ST. LOUIS, Mo.—G. H. Walker, Jr., resident of New York and senior partner of the investment banking firm of G. H. Walker & Co., announced in St. Louis that the 53-year old firm, in line with its expansion program, will open a new branch office at 8220 Forsyth Boulevard, Clayton, Mo., on Dec. 1, 1953.

Mr. Walker further stated that Roy W. Jordan, a resident of Clayton, will be the Resident Manager in charge. Mr. Jordan is well known in local investment circles. He entered the investment business in 1928. During the years of World War II he was assistant to the President of McDonnell Aircraft Corporation. He became associated with G. H. Walker & Co. in 1944 and recently has been in charge of special projects.

G. H. Walker & Co. is a member of the New York Stock Exchange, American and Midwest Stock Exchanges. It has long been identified with the industrial progress of the Middle and Southwest, having early participated in the financing of such representative companies as Union Electric Company of Missouri, Southwestern Bell Telephone, Laclede Gas Co., and the New Orleans, Texas and Mexico Railroad.

Offices are now maintained in St. Louis, Mo., at 503 Locust Street; New York, N. Y.; Providence, R. I.; Hartford and Bridgeport, Conn., and White Plains, N. Y. The firm was founded in 1900 by G. H. Walker, Sr.

IN MEMORIAM

Frank J. Humphrey

Frank J. Humphrey, long time member of Kidder, Peabody & Co.'s bond department in New York City, passed away Oct. 25 at his Ridgewood, N. J. home. Mr. Humphrey was a native of Canada, having been born in Brunswick, Canada, and was graduated from Boston University Law School in 1901. He was a director of Anglo-Canadian Pulp & Paper Mills, Ltd., Gaspesia Sulphite Co., Shamrock Oil & Gas Co. and Chairman of the Board of the Anglo-Newfoundland Development Co., of which he was formerly President. Mr. Humphrey's memberships included the Union League Club, The Pilgrims and the Wall Street Club.

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Big Government on the Wane!

By LEROY A. LINCOLN*
Chairman of the Board, Metropolitan Life Insurance Company

Head of a large life insurance company, in describing the "new look in government," finds encouragement in removal of wartime and other controls and efforts now being made to balance the National Budget. Lauds ending of Reconstruction Finance Corporation, and points out, from among the 100 separate types of government business enterprises, the insurance, power, and lending actions of the Federal Government overrides private business in these lines.

It may come as a revelation to some of us to know that the Government of these United States is today operating some 100 separate types of business enterprises which can be supported only through the proceeds of taxes imposed on the people. $40 billion of our tax money has been so invested. The government can be said to be the nation's largest insurer, electric-power producer, lender, landlord, ship owner, grain owner, and warehouse operator.

Leroy A. Lincoln

These giant rivals to the businesses of our nation grew slowly but inexorably under the aegis of a bureaucracy born in depression and nurtured in war. Some activities, such as synthetic rubber and our atomic energy plants, are necessarily government operations because of their size. The great bulk of them sprang from small beginnings. Let me give a very early example recently reported in "Time" magazine and probably unknown to most of us. In 1834 President Andrew Jackson authorized a "Navy Rope Walk" in Boston, so that the Navy would not be dependent upon Russian hemp—Russian, of all things! Today United States rope makers can more than supply all the Navy's needs, but that early naval factory continues to make all Navy rope with that hearty indestructibility peculiar to government businesses once they are started.

It may be equally surprising to learn, from a statement made last year by Senator Harry Byrd of Virginia, that up to 1945, and during the administrations of 31 Presidents of the United States, a total of seven major wars were financed in whole or in part. During that entire period of 156 years not as much money was collected from American taxpayers as was collected by the Federal Government during the 7-year period 1945-1952.

Representative Clarence Brown of Ohio has counted 75 government bureaus which deal with transportation, 65 which compile statistics, 37 dealing with foreign trade, 34 with the acquisition of land, 22 with insurance, and 15 with housing. In addition, he reports that in 1952 there were no less than 93 separate Federal agencies lending what is quaintly called, "government money"—really money collected in taxes from you and me.

In 1953 this trend toward a bigger and more powerful government in Washington appears to be in process of reversal. In the words of President Eisenhower:

"We have instituted what amounts almost to a revolution in Federal Government as we have known it in our generation. We have set about making it smaller rather than bigger—finding things it can stop doing rather than new things for it to do."

*A paper by Mr. Lincoln delivered before the American Life Convention, Chicago, Ill., Oct. 8, 1953.

Wage and Salary Controls

In 1943 there were wage and salary controls and countless rules and regulations. Mr. J. Reuben Clark, of Salt Lake City, in his address to you in that year, noted that an employer had "to get the consent of a Federal agency if he wished to give a needy charwoman a raise of $5 a month." All wage and salary controls were terminated on Feb. 6 of this year.

Price Controls

In 1943 and until early in 1953 there were price controls on most consumer goods and on thousands of other items. On March 17 of this year the last price controls were removed. A year ago we were told that price control was needed to fight inflation and that if controls were allowed to lapse, the country would be turned over to "the profiteers," and a floodgate of uncontrollable inflation would result.

As a matter of fact, price controls unbalanced and curtailed production, encouraged shortages, enabled partisan groups to exercise life-and-death powers over particular industries and firms, and encouraged the continuance of inflation by diverting public attention from its real cause—the creation of more money and credit by the government itself. Thus, once more the fraud of price controls as a cure for inflation has been demonstrated.

Rent Controls

In 1943 stringent Federal rent controls were in force. These have now been removed on a gradual basis everywhere except in a few critical defense housing areas.

Big Business

In 1943 and in subsequent years business enterprises were suspect in Washington. The theme that bigness in business (but not in government) is in itself an evil was widely current. Big business, our greatest functional asset, was a popular subject for unremitting criticism, suspicion, and governmental attack. While this state of mind may persist in some circles, it is now less apparent, and we find David E. Lillienthal, who managed one of the government's really big businesses—the Tennessee Valley Authority—and who later became Chairman of the Atomic Energy Commission, saying:

"My conviction about Big Business is that it represents a proud and fruitful achievement of the American people as a whole; that in Big Business we have more than an efficient way to produce and distribute basic commodities, and to strengthen the nation's security; we have a social institution that promotes human freedom and individualism.

"Big Business, as it has now evolved, far from being an evil and a menace, provides an opportunity to build the physical basis for an even stronger democracy and an even greater people."

With merely 6% of the world's population and about the same percentage of its land area and natural resources, the people of the United States now produce as much as all the rest of the people of the world put together. Many people are agreed that America's mastery of production is now all that, in the words of Mr. Lilienthal, "stands between freedom and the tidal wave of Communist militarism threatening the world with a new era of darkness."

Reconstruction Finance Corporation

In 1943 the Reconstruction Finance Corporation was near the height of its activities. This Federal Agency had been set up in 1932 by President Hoover in an effort to deal with some of the early problems of the depression. In its prime it helped write some of the most important chapters in United States economic history, not the least of which had to do with the synthetic rubber plants, the Willow Run bomber plant, and the big pipelines. However, on many of its loans it competed directly with what private lending institutions were in a position to do, and recently it has been subject to criticism on account of bad loans and influence peddlers.

The Reconstruction Finance Corporation is now preparing for the biggest going-out-of-business sale in history, and according to Congressional mandate, it will close up shop by June 30, 1954.

Subversion

In 1943, in his address to us, Mr. Clark was also concerned with what he called the foreign, un-American influences which had been increasingly exerted among us since the end of the first World War. It is particularly interesting to note that Mr. Clark said of this group possessing alien concepts and alien philosophies:

"These all form a vast army, some 3,000 of whom, hand picked, are said to swarm in government offices, many in key positions, all ready, able, and willing to take over if ever opportunity should come, or be made."

Comparatively recent revelations, beginning with the first Hiss trial, bear out the truth of this observation.

In a speech on June 11, 1953, President Eisenhower said:

"We have attacked the problem of internal security with a vigor long overdue. We have set up security regulations in the Federal Government which, while strictly respecting the just rights of every civil servant, at the same time recognize this basic principle: Government employment itself is not a right but a privilege.

"This privilege is being categorically denied anyone not worthy of the American people's trust—whether in any department of government, or in the delegation of the United Nations, or in any embassy abroad. This assuring of proper security—as I said in the State of the Union message—is the direct responsibility of the executive branch of the government. This responsibility is now being met."

War Powers

In 1943 we were all conscious of the extraordinary powers vested by the Congress in the Chief Executive. Most of these powers were avowedly granted as emergency or war measures for the preservation of our democracy. It must surely have been intended by the Congress that they would all expire with the ending of the emergency. However, during the course of the past 24 years a never-ending succession of "emergencies" has occurred, and in 1943 many people had reason to fear that these powers would never be allowed to expire. The fact is, however, that the great bulk of the extraordinary emergency and war powers have actually expired. Only a few have been continued on Executive request.

The Budget

In 1943, and for years before and after 1943, an unbalanced budget seemed to be the order of the day. Today the balancing of the budget has become a *major* aim of government for the first time since 1930. Spending programs are being critically reviewed and cut down where possible. In President Eisenhower's State of the Union message he said:

"The first order of business is the elimination of the annual deficit. . . ."

The difficulty of carrying out this pledge, largely because of prior commitments, has recently become apparent. Indeed, it is obvious if the budget is to be balanced — thus reversing the trend of years—it can hardly be expected to be accomplished within the short period of a few months, in view of the scope and complexity of our Federal Government.

It is interesting to note that, while a balanced budget may not be possible until fiscal year 1955, which begins next July, Secretary of the Treasury Humphrey said early in September: "The country has reached the essential turning point toward a balanced budget." This, in itself, will be a remarkable achievement, when we remember that $2 out of every $3 spent by our Federal Government is spent for defense purposes.

In order to make the new balanced budget a reality, Budget Director Joseph Dodge said that it would be necessary to make:

". . . a new determination of what the Federal Government should be doing and should not be doing. . . . The 1955 budget will reflect the continued withdrawal of the Federal Government from activities that can be more appropriately carried out in some other way. . . . Government employment, operations and construction will continue to decline in 1955 as they will in 1954."

Federal Employment

As early as Feb. 3 the Budget Director issued a "freeze" order curbing the hiring of additional government workers and stopping new government building and other projects. On June 11 the President said:

"The Federal payroll is already smaller by more than 50,000 individuals—which means a saving of no less than $180 million per year. And every single department of the government has *reduced* its requests for money for the next year."

Since Jan. 20th of this year the Federal payroll is reported to have been reduced by more than 81,000 civilian employees. Civil Service Commission spokesmen, reporting to the House Committee on Appropriations, estimated that by June 30, 1954, the number of Federal employees will have been reduced by 240,000. In spite of the loss of many jobs on the Federal payroll, it is interesting to note that, according to recent figures, the country's unemployment has dropped to a postwar low of 1,240,000—only 1.9% of the total work force.

Yes, there is certainly a new look these days. And it is not due entirely to new faces in governmental circles. Those in authority no longer have the perplexed appearance of frantic aimlessness in the midst of problems of catastrophic stature. On the contrary, there is a relaxed look which current circumstances, no matter how urgent, nevertheless make possible to those in authority. We may not all agree, politically or otherwise, with some of the thinking and with some of the actions taken by our government then or now, but as contrasted with 10 years ago, more and more of our people seem to rely on a disavowal of government by directive, confiscation, interference with business, and other practices which some feared were leading down the long, one-way road to socialism or communism.

Life Insurance

In his address in 1943 Mr. Clark noted that the government had already entered the insurance field with the Federal Social Security legislation of 1935. It is common knowledge that, since the enactment of this legislation, the several programs then initiated have become subject to continuous political pressure to increase the areas in which they operate and to increase the benefits provided. This increase in benefits has become a political shibboleth with which glib-lipped politicians of all parties can bid for votes.

Mr. Clark added that other socialized plans—such as socialized medicine—seemed to him, in 1943, to be in the immediate offing. He noted that the principle of Federal insurance might become thoroughly established, and from that point, he said, "It is not a long step . . . to set up Federal life insurance." He then pointed out the calamity to our existing national financial, economic, and governmental life, should the life insurance policyholders of the nation become, in effect, wards of the Federal Government.

Those sobering possibilities of 1943 have not come to pass. Since that time there has been much talk of socialized medicine. For the time being, however, this issue seems to be a comparatively dead one. In the meantime, more and more accident, health, hospital and surgical expense insurance is being written by private companies, and plans such as the Blue Cross and Blue Shield are becoming more and more widespread. Certainly now, in 1953, there is no present threat of the government taking over the life insurance companies and their assets, although we must ever be vigilant to guard against the specter of such an eventuality. The late Senator Taft once said:

"A system of national compulsory insurance cannot be insurance at all. It is a tremendous expansion of government activity. It is a dangerous limitation on the liberty of the people." and ". . . the function of [private] insurance is vital to the preservation of liberty."

S.E.U.A. Decision

A burning issue in 1943 was whether or not our business was, under the Commerce clause of the Constitution, properly subject to the regulatory powers of Congress. The S.E.U.A. decision had not then been announced by the Supreme Court, and most people in the business felt that the 1869 decision of *Paul* v. *Virginia* represented the law of the land and that the issuance of a policy of insurance was not a transaction of commerce. Then the Supreme Court told us we were wrong. Happily, Congress has agreed to withhold the exercise of its regulatory powers in the public interest and in order to permit the continuation of State regulation.

Government Insurance

As I noted earlier, the government might still be said to be the nation's largest insurer. Perhaps we can take some solid satisfaction in the fact that an earlier trend toward the increase of governmental insurance activities has been reversed. The most notable example of this trend was the enactment of the Servicemen's Indemnity Act of 1951, under which, for the most part, the former National Service Life Insurance will no longer be issued to servicemen.

Although these issues may not be of current importance, we must continue so to conduct our business and to preach from the

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housetops the merits of private life insurance that the threat of governmental interference in these areas will never be raised.

Conclusion

Communism, socialism, and collectivism all have as their earmark a leveling-down process which reduces the successful, the fortunate, the ambitious, and the industrious to the level of the least in ability and earnestness. In contrast, the spiritual mainspring of our form of democracy has been a leveling-up process. More and more of the people are receiving a larger and larger share of our total national product. This has not been accomplished by confiscation, by nationalization, or by exacting tribute from satellites; it has been done by our own increased productivity. Our hours of work were 69 per week in 1850; today they average 41 including overtime. In 1900 our per capita income was $340; today it is $1,075—both in terms of 1929 dollars. Can any other nation, Communistic or otherwise, point to such a record?

We stand on the threshold of the atomic age and of what might be one of the most momentous social revolutions of all time. Can this nation—can our government—and can our life insurance business withstand the impact of the atom? I firmly believe that the answer is "Yes"!

I join with Reuben Clark and with so many, many patriotic Americans in complete confidence in the aggregate wisdom of our people when they are given, and made to understand, all the facts. Even after being led astray, they will eventually, slowly and cumbrously, swing back to the right road. Throughout our entire history, we have seen striking examples of this process.

Our government and our people will survive in this new age only by adherence to the fundamental concepts of the framers of our Constitution. We must limit the powers and the activities and the scope of the Federal Government. We must be eternally vigilant for subversives in our midst, because such is the price of liberty. We must be more self-reliant and less dependent upon government to solve social and economic ills. And, finally, we must continue our heritage of useful and productive work, deaf to the siren call of the pied piper that something worth while is attainable for nothing; in the end there is always an accounting.

Our great institution of life insurance will survive, because we shall continue to act with an eye single to our trusteeship for some 90 million owners of legal reserve life insurance in this nation of over 160 million. The confidence and the trust of that great army of our people merits our continued and increasing devotion to their welfare, because what is best for them is best for this great institution whose responsibilities must be the personal responsibilities of each and every one of us.

And, so, I have tried to point to a new look on the face of our country, of our government, and of the institution of life insurance. In the light of these dynamic events of the past ten years, it is also, I submit, in the minds of many of us, a better look than that which was apparent when Reuben Clark addressed us. We go on from here with a task ever to insure that any new look shall portray sound progress in our institutions, public and private, always a new, and a better, look!

Marache Dofflemyre Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Robert E. Murphy has been added to the staff of Marache, Dofflemyre & Co., 634 South Spring Street, members of the Los Angeles Stock Exchange.

LETTER TO THE EDITOR:

World Moving Towards a Paper Money Hell, Says British Reader

J. F. Eggleston, of London, Eng., lecturer to Local Centres of the Institute of Bankers, blames issues of fiat money by central bankers as causing universal deterioration of currency. Says gold price should be left in all countries to find its own level, and should be freely imported and exported.

Editor, Commercial and Financial Chronicle:

I have carefully read the letters of Harold E. Barton and Philip G. Gans, also Frederick G. Shull, who all have given careful thought to the matter, and it may be that the view of an Englishman, a City worker, lecturer to the Institute of Bankers Local Centres, and active member of the Liberal Party — which gave the world the golden sovereign and the bill on London, will find interested readers in your columns. Shortage of paper in this country prevents my deductions from finding anything except the most limited space—so that the reading of your issues was to me a delightful exercise in my favorite subject. These are my opinions:

Due principally to the neo-Keynesian economics and the curious notions of "John Maynard" regarding gold coupled with his advocacy of the embracing of almost all the economic activity of the nation by the State, the role of democratic government, Parliament and Congress, in the governments of the "free" world is in decline, whilst that of the Treasury, the Central Bank and the "Planner" is assuming terrifying proportions. The power exercised in the economy of the country by the merchant, the industrialist and the business man is likewise diminishing, whilst that of the professional economist, the ministerial negotiator of trade is increasing.

In the midst of these disquieting symptoms, one in particular has attracted little attention: that is, that Central Banks are above the Rule of Law and can do no wrong. But great as have been the frauds which men such as Law, Kruger, Hawtry, Bottomley and the rest of that sorry throng have perpetrated, they are insignificant in comparison with those which Central Banks, with their immense issues of fiat money, can, and have perpetrated, and are indeed perpetrating on the peoples of every nation. In Great Britain, another 100 tons (about £100,000,000) of notes have been pumped into circulation in the last 12 months.

The world is moving toward a paper money hell. Under conditions of perfect organization, with Parliament or Congress in session, with every public and private official industriously and conscientiously discharging his duty, there may arise a chaos, a confusion, a suffering, a tragedy, due to the overissue of paper money, and the mind reels before the possibility of violence which may arise from this devastating and almost certain catastrophe, when inflation has continued to the extent that the day's work of a workman does not buy him a day's bread. Paper money which does not exchange at the Central Bank, or, in default, does not exchange in the open free market against metallic coinage, gold or silver, is bound, by inescapable and inevitable economic laws, to gravitate toward its worth as a commodity, that is to say, an irrisory value.

The inflationary spiral has, in at least 20 countries, run its full course, and hundreds of millions of people have lost all. Furthermore, there have been irretrievably lost the qualities which generations of monied and landed families have given to Europe, America and the world: and the great dispossessed, fleeced almost to the clothing they wore by obeying the law which confers a sacred right to worthless paper, have to bow to some form of tyranny and totalitarianism—where a third-class clerk is given the power of an industrial Caesar. Had there been no German inflation with its accompaniment of riots and unrest, semi-starvation and dispossession, Exchange Control and the sorry arts of Doctor Schacht, there would equally have arisen no Hitler in Germany. It was the Assignats which threw up Robespierre, and the long agony of the Russian Revolution was fanned by the complete loss of value of the ruble.

On the other hand, the possession of real money of gold or silver, confers the magic of well-being on which the Salomonic, the Greek, the Roman and the Byzantine, the Florentine and the British civilization reached their fullest development. Democracy, liberalism and gold, when in treble harness, achieve miracles.

There is no doubt that any price for gold other than the free market price is incorrect, and, as all over the world Gold Standards have broken down—and gold has become a commodity, rather than an integral part of the currency, gold should be left in all countries to find its own market level, to be freely imported and exported and handled with equal rights by Central Bank or by private individual. An age-old law of currency is that the currency which goes cheaper to the Mint becomes currency and that which goes dearer, gold, becomes a commodity.

Thus, in all this world-wide welter of approaching and even present misery and uncertainty, there is one — and one only — truth which emerges. It is that no conference, no policy, no law, no regulation, national or international, can give any paper currency, sterling, dollar or what have you, a real value. Only the free market can do this. Sterling, to revive, must be the absolute property of the owner, without the slightest coercive effect of Exchange Control. The dollar at least is clear of this incubus to value, and probably Americans cannot realize the immense frustration of these thrice stupid measures, which send our officials scurrying across the Atlantic with tales of woe.

When the unpunished crime of issuing inconvertible paper money is no longer perpetrated, when the Central Bank seeks honesty rather than a specious and coerced stability, and buys and sells gold freely in the world's markets side by side with an uncoerced and democratic multitude, when the Promise to Pay may be exchanged at the option of the holder against gold or silver at the day's market rate, when the world can weigh on a just balance, look in a true mirror, gauge values on a true and free quotation, then the value of thousands of millions of pieces of oblong paper—bank notes—will become something tangible and their degradation will be accurately measured.

No learned publication, no dissertation of university economists can add one iota to the great truths which have endured for thousands of years, and which will continue to reduce international monetary conferences to mere miasmas of platitude. One thing is certain and the rest is lies! The one certain thing is the eternal and ever-operating power of the free market—and its effect on gold.

Yours faithfully,

J. F. EGGELSTON,

Lecturer to Local Centres of the Institute of Bankers.

16, Parkfield Crescent,
Harrow, Middlesex, England.
Sept. 16, 1953.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week — Bank Stocks

Dividend prospects of the banks continue to dominate the market for bank shares and the interest of investors.

Last week the Chemical Bank announced that, subject to approval of stockholders at a special meeting to be held Nov. 12, it would pay a 10% stock dividend to stockholders of record Nov. 25, 1953. At the same time it was stated that the bank anticipated the current annual dividend rate of $2.00 would be continued on the increased number of shares to be outstanding.

This announcement by Chemical is believed to be the first of many similar declarations that will be made over the next few months designed to increase the cash distributions to shareholders. In addition to stock dividends it is expected that there will be larger extras and in some instances increases in the regular dividend rates of the various New York banks.

Part of the reason for these expectations arises from the fact that over the past several years earnings for the banks as a group have been rising at a faster rate than dividend payments. For example, in 1951 dividends declared by 16 of the major New York banks amounted to approximately 65% of net operating earnings. Even though there were a number of dividend increases or larger payments in 1952, the total disbursement accounted for only about 57% of the net operating earnings that year.

Current prospects are that operating earnings this year will show a substantial rise above 1952 reaching a new peak.

A higher loan volume and a rise in the level of interest rates have combined to produce a sharp expansion in gross operating income so far in 1953. Operating expenses have increased, but considerably less than the gain in operating revenues. This has meant a sizable increase in earnings before taxes.

Taxes have and will continue to be a special problem for the banks. Suffice it to say at this time, that even though taxes have increased substantially and absorbed a large portion of the operating gain, net operating earnings have shown a favorable increase. The present forces at work indicate that these trends will continue throughout the rest of the year and that net operating earnings will be the best in recent years.

Based upon the expected level of earnings and present dividend rates a majority of the major banks will be distributing less than 60% of earnings this year with several well below 50%. Thus, there is ample justification on the basis of current earnings to expect larger dividend distributions in the coming months.

Another consideration in the present prospect for larger dividends is the outlook for taxes. Two or three of the New York banks have been accruing excess profits taxes this year while a number of others have, by establishing tax losses on security transactions, minimized the impact of this levy on earnings.

When the excess profits tax expires on Dec. 31, as is now expected, the banks that are now subject to this tax will be able to retain a larger portion of operating income. Also should the normal and surtax combined rate be reduced to 50% from 52% next year, all the institutions would benefit.

This prospect of lower taxes in the coming year should inspire a more liberal attitude on the part of bankers with respect to dividend payments.

Under these circumstances it is possible that extras and increases in payments may become general. Some of the more likely changes among others are the following:

The Bank of New York for the past two years has been paying a quarterly dividend of $3.50 and an extra of $2.00 for a total payment of $16.00. With operating earnings close to twice this figure an increase in the regular rate or a larger extra could be paid. The bank usually meets for dividend action the first week in December.

The Chase Bank has been hard hit by taxes in recent years and has accrued excess profits taxes. It may be that with tax relief in sight an extra will be paid.

Since Guaranty Trust split the stock five-for-one last year the bank has been paying at a $3.00 annual rate. While no change is likely in this rate of payment, a modest extra seems a reasonable expectation.

In view of the conservative payment made by the Hanover Bank some step could be taken to enlarge the distribution. However, it has not been the policy of the bank to pay extras and the $4.00 rate has been maintained for a long time. If the payment is increased it may be accomplished through a small stock dividend as was the case two years ago.

The Manufacturers Trust has paid dividends at the rate of $2.80 for 1953. An increase to $3.00 either by an extra payment or a 75-cent quarterly rate is believed possible.

For National City another small stock dividend may be paid this year. In view of the conservative payout and the prospects for earnings, a larger cash payment or an extra could be paid instead.

For the other institutions one or two may enlarge their payments. At least extras and regular payments equal to those paid last year should be maintained.

COMPARISON & ANALYSIS

17 N. Y. City Bank Stocks

Third Quarter 1953

Bulletin on Request

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NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

On Oct. 22 the **Manufacturers Trust Company's** 25 Year Club held its 14th anniversary dinner at the Hotel Astor. Seventy-one new members were welcomed by Mr. Horace C. Flanigan, President. William O. Walter, President of the Club, presented watches to four 40 Year members. Total membership consists of 687 members, of whom 67 are retired.

The following officers were elected for the ensuing year: Matthew McKenney, President; Russell Eberhardt, Vice-President, and Henry C. V. Cann, Treasurer. Permanent Secretary, Percy A. Goodell.

* * *

Edward E. Steele, a Vice-President of **Manufacturers Trust Company, New York,** died on Oct. 23 at his home after a long illness. He was 63 years old.

Mr. Steele became a Vice-President in 1937 through the merger with the Equitable Trust Company of New York of which he had been an officer.

* * *

C. Wadsworth Farnum has been elected Vice-President of **Bankers Trust Company, New York,** it was announced on Oct. 26 by S. Sloan Colt, President. Mr. Farnum had been an Assistant Vice-President.

He is assigned to the Bank's Pension Division, where he succeeds to the post held by Francis A. Cochrane, Vice-President, who has retired after 31 years of service.

* * *

Directors of **Chemical Bank & Trust Company, New York,** proposed a stock dividend of 10%, subject to approval of the shareholders at a special meeting to be held Nov. 12.

N. Baxter Jackson, Chairman, announced that the distribution, if approved by the shareholders, will be made on Dec. 9 at the rate of one share on each 10 shares held of record Nov. 25. Where fractional shares are involved, instead of issuing scrip, cash will be paid on the basis of the closing bid price for Chemical Bank stock on Dec. 3.

Mr. Jackson explained that the 10% stock dividend will, in effect, increase the bank's annual cash dividend payments from $5,080,000 to $5,588,000, because it is anticipated that the present annual rate of $2 per share will be continued. This compares with total dividend payments of $3,600,000 in 1950 when the rate was $1.80 per share.

To effect the stock dividend, Chemical shareholders are being asked, at the Nov. 12 meeting, to authorize an increase in the bank's capital stock from $25,400,000 to $27,940,000, and to authorize 254,000 new shares of $10 par value. Upon such authorizations, the directors plan to transfer $2,540,000 from undivided profits to surplus and then to transfer a like amount from surplus to capital. The bank then will have capital of $27,940,000, surplus of $85,000,000 and undivided profits in excess of $17,000,000.

The last previous stock dividend distributed by Chemical Bank was on Nov. 25, 1945 when 25%, or one share for each four held, was issued. The last increase in the annual rate of cash dividend was from $1.80 to $2 a share on April 1, 1951.

J. Lee Rice, Jr., Vice-President and Director of the West Penn Electric Company, has been appointed to the advisory board of the 30 Broad Street Office of **Chemical Bank & Trust Company, New York,** it was announced on Oct. 22 by N. Baxter Jackson, Chairman.

J. Lee Rice, Jr.

Mr. Rice, a native of Butte, Mont., is a director of Indiana-Kentucky Electric Corp., Monongahela Power Co., Ohio Valley Electric Corp., West Penn Power Co. and West Penn Railways Co. He is Vice-President and Director of The Potomac Edison Co.

* * *

A new office of the **Bank of the Manhattan Company, New York,** opened in Forest Hills on Oct. 28, Lawrence C. Marshall, President, announced. Located at 104-17 Queens Boulevard, it is the 34th office of the Bank in Queens and will bring to 57 the number of offices operated by the bank. It will be under the supervision of Robert Dandrea, formerly Manager of the Bank's Fresh Pond Road office.

* * *

Blair, Rollins & Co. Incorporated as managers of a group formed to underwrite the recent offering by **The Franklin National Bank of Franklin Square, L. I.** of 39,000 shares of its capital stock have announced that all such shares have been subscribed for.

The stock was offered to stockholders at $43 per share, at the rate of one new share for each 10 shares held of record on Oct. 6, 1953. In addition to the regular quarterly dividend of 1/78th of a share payable Nov. 1, the stockholders will receive an additional dividend of 9/31st of a share (approximately a 29% stock dividend) payable Dec. 1 to stock of record Nov. 20.

Associated with Blair, Rollins & Co. Incorporated were W. C. Langley & Co.; Hornblower & Weeks; Grimm & Co.; Boenning & Co., and Hallowell, Sulzberger & Co.

The stock offering was given in the Oct. 8 issue of the "Chronicle" on page 1354.

* * *

The Elmira Bank & Trust Company, Elmira, New York, on Nov. 2, 1953, will have completed a full century of service. In commemoration of its 100th Anniversary the bank has published a booklet describing not only the growth of the bank itself but also of Elmira. It also points out the most important happenings in this century of progress. The bank started with a capital of $200,000 which has grown so that on June 30, 1953, total resources were $53,412,966.

* * *

It was announced on Oct. 20 that the directors of the **Girard Trust Corn Exchange Bank, Philadelphia, Pa.,** and the **North Philadelphia Trust Company, Philadelphia, Pa.,** have endorsed a proposal for merging under the name of the **Girard Trust Corn Exchange Bank.** The proposed plan is subject to the approval of shareholders of both institutions as well as that of state and Federal banking authorities.

Under the plan, stockholders of North Philadelphia Trust Company would receive three shares of Girard Corn Exchange Bank plus $120 in cash for each share held. Girard Trust Corn Exchange Bank, which has 14 branch offices in Philadelphia, had assets of $598,000,000 on Sept. 30, when those of North Philadelphia Trust Company were $22,000,000.

* * *

The Central - Penn National Bank of Philadelphia, Pa., on Oct. 14 increased its common capital stock from $3,750,000 to $5,000,000 by sale of new stock.

* * *

Directors of the **Central National Bank of Cleveland, Ohio,** have called a special meeting of stockholders for Nov. 2 to act on a proposal to increase the capital stock by sale of 140,625 shares.

The proposal recommends offering of the additional shares to present stockholders, pro-rata, on a subscription basis of one new share for each four held on record date.

* * *

Carl F. Wente, President of the institution, disclosed that **Bank of America, San Francisco, Calif.,** has allocated more than $12 million for new buildings and improved facilities during the next year and a half. Planned (with some already scheduled) are construction jobs for 86 of the bank's branches, while 45 more projects are already under contemplation for the subsequent period, it was revealed.

Officers of the bank estimate the average unit to cost approximately $141,000, with the 86 projects ranging from a $10,000 enlargement at Compton branch in Southern California to a $475,000 new building now under construction in Santa Rosa.

Forty-six new buildings are planned for existing branches. Of these, the following will be started immediately or are already under construction: Merced, $420,000; Mountain View, $345,000; Wilshire-Vermont (Los Angeles), $300,000; Anaheim, $258,000; North Sacramento, $255,000; Wilshire-15th (Santa Monica), $252,000; East Side (Stockton), $250,000; Redondo Beach, $244,000.

Among others in this category involving similar degrees of expenditure are: Sunnyvale, La Mesa, Bakersfield - Westchester, Santa Maria, Hawthorne, National City, La Habra, Monrovia, Colton, Belmont - Blackstone (Fresno), East Whittier, Buena Center (Ventura), Greater Broadway (Sacramento), El Cajon Boulevard (San Diego), Redwood City, and Porterville.

James S. Crow Joins 1st Nat'l of Birmingham

BIRMINGHAM, Ala.—James S. Crow has joined the bond department of the First National Bank of Birmingham, First Avenue and 20th Street. Mr. Crow was formerly Manager of the sales department for Hendrix & Mayes, Inc. and prior thereto was Assistant Vice-President and Manager of the bond department of the First National Bank of Mobile.

James S. Crow

Joins Chiles-Schutz

(Special to THE FINANCIAL CHRONICLE)

OMAHA, Neb.—David A. Upp has joined the staff of Chiles-Schutz Co., Omaha National Bank Building.

T. Jerrold Bryce Named to Head Investment Bankers Ass'n in 1954

CHICAGO, Ill.—T. Jerrold Bryce, a senior partner of Clark, Dodge & Co., New York, has been nominated as the next President of the Investment Bankers Association of America, it was announced by Ewing T. Boles, The Ohio Company, Columbus, President of the Association. Named with Mr. Bryce are the following nominees for Vice-President:

T. Jerrold Bryce

Robert H. Craft

Holden K. Farrar

Lewis Miller

Ralph E. Phillips

Walter A. Schmidt

Robert H. Craft, American Securities Corp., New York.
Holden K. Farrar, Smith, Barney & Co., Chicago.
Lewis Miller, The First National Bank of Chicago, Chicago.
Ralph E. Phillips, Dean Witter & Co., Los Angeles.
Walter A. Schmidt, Schmidt, Poole, Roberts & Parke, Phila.

Nominations, made by the Board of Governors, are considered tantamount to election in the IBA, which will act on the ticket at its annual convention scheduled for Nov. 29-Dec. 4, at the Hollywood Beach Hotel, Hollywood, Fla.

Mr. Bryce has been in the investment banking business for almost 40 years—his entire business career. Upon completing formal education at Ohio State University he entered the employ of the bond department of Harris Trust and Savings Bank, Chicago. Eight years later, after several years in the United States Navy, he joined the Illinois Merchants Trust Company of Chicago and was appointed Manager of the Bond Department. Subsequently this bank merged to become the Continental Illinois National Bank and Trust Company, of which he was made a Vice-President. After 22 years on La Salle Street, he moved to New York in 1935 to become a partner in Clark, Dodge & Co.

Since 1927 Mr. Bryce has been active in IBA affairs, has held numerous positions of leadership within the securities industry, and through his efforts in behalf of the investment business, is widely known throughout the financial community. He has served on various committees of both the New York Group and the Central States Group of the IBA, was Chairman of the latter 1930-31 and has over the years been a member of various national committees of the Association.

Mr. Bryce was a Governor of the IBA, 1931-34, and a Governor of the National Association of Securities Dealers 1947-49, and is now a Governor of the New York Stock Exchange.

On two occasions Mr. Bryce has served as Financial Consultant to the Federal Government. In 1931-32 he was on the Special Advisory Committee to the President on Government Finance, and in 1942 he was appointed Securities Industry Liaison Officer to the Treasury Department.

P & S Div. of Wall St. To Hold Ann. Dinner

Richard H. Stewart, of Lehman Bros., President of the Purchases and Sales-Tabulating Division of Wall Street, Association of Stock Exchange Firms, has announced that the annual dinner of the division will be held at the Hotel Statler on Thursday, Nov. 19, 1953.

Bert Seligman, of Thomson & McKinnon, Chairman of the Entertainment Committee, stated that arrangements have been made for 500 members and guests.

Langley-Howard, Inc. Open

PITTSBURGH, Pa. — Langley-Howard, Inc. has been formed with offices at 140 Stanwix Street to engage in the securities business. George J. Langley, a principal of the firm, was previously with Graham & Co.

First of Michigan to Open Columbus Branch

COLUMBUS, Ohio — First of Michigan Corporation will open a branch office in Columbus, Ohio, Nov. 1, in the Huntington National Bank Building. Russell C. James, formerly Co-Manager of Baxter, Williams & Co., investment firm in that city, will be Manager of the new branch, which is First of Michigan's ninth in the east and middle west. It will serve Ohio, Kentucky and southern Indiana.

Doyle, O'Connor Co. Open Branch in Gary, Ind.

GARY, Ind. — Doyle, O'Connor & Co. of Chicago, have opened a branch office in the Gary National Bank Building, under the direction of H. W. McKinney.

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No Serious Depression Likely In Chemical Industry

By LELAND I. DOAN*

President, The Dow Chemical Company

Prominent chemical executive decries talk of serious depression, along with the accompanying atmosphere of pessimism and timidity. Sees no serious recession ahead, but looks for merely a reduced pace in the upward industrial trend. Warns against business becoming stampeded by every little dip and rise. Admits excess production capacity is likely, but holds "there are worse threats to our price structure than over-capacity." Discusses new developments in Dow Chemical Company as well as chemical industry as a whole.

I suppose the only proper backdrop for our little discussion here today is the current over-all business outlook. Consequently it would be much easier for all of us if someone could tell us exactly, and with certainty, just what that outlook is.

Leland I. Doan

That, however is a matter on which everyone seems to have his own opinion, but basically I think most businessmen and observers fall roughly into one or the other of two schools of thought.

One school of thought says, in effect: Let's face it—we are in a precarious position. We have been riding the wave of an artificially created boom that has carried us beyond the requirements of a normal, peacetime, civilian market. There are some ill winds blowing, with some bad straws in them. Most any little disturbance can nudge us into a tailspin.

The other school of thought runs something like this: True, we have been artificially stimulated, and we recognize that this sort of thing does not go on forever. But the artificial factor has been a relatively thin layer in the total economy, and most of our recent progress has been a sound upgrading of the American standard of living. Hence we have an alert and eager civilian market whose requirements are not far behind our present capacities. These ill winds and bad straws are actually far less important than the possibility of economic hypochondria. For heaven's sake, let's not talk ourselves into ill health.

I don't suppose any of you have much question where we stand in this picture. The Dow Chemical Company has not gained its reputation for growth by following a philosophy of pessimism or timidity. You all remember the "recession" talk that came with the close of World War II—yet during the single fiscal year between June '46 and May '47 we more than doubled our net plant. It now stands at nearly 6½ times the level of 1946—and all during these years we have been hearing intermittent prophecies of doom. So I guess the pessimists could say we have really been asking for it.

I don't hold with the current fears any more than I did with those of 1946. However, let me make a few qualifications. At the best, I do not consider it a "recession" or a "decline" to go forward at a speed somewhat less than the pace at which you have been running. At the worst—if we are actually facing a valley I see little reason for expecting it to be either very deep or very wide. We expect to be in business for a long time, and while we must necessarily adjust our thinking in the light of temporary situations, we try to keep our eyes on the long range. The curve of our national economy has never followed a straight and unwavering line in any direction . . . and there is no reason to expect that it will in the future. But the thing that can make a roller-coaster out of gently rolling terrain is for business to become stampeded by every little dip or rise.

Likewise the history of the chemical industry has been one of cycles—of excess demand, of expansion, of catch-up and, on occasion, of surplus. Right now we seem to be at the catch-up stage and facing some surplus. Certainly there is some over-capacity.

But this over-capacity is not unanticipated. On the contrary, it is a previously forecast result of an international emergency, and a consequent governmental policy, which made it necessary for industry to expand many capacities beyond expected civilian demand. By the same token it is an indication that business, by and large, was justified in asking accelerated amortization of new facilities.

It seems probable that there will be some excess capacity for many commodities for the next two to five years, by which time civilian demand should again catch up with the excess of capacity, to start the cycle over again. This outlook, of course, assumes that the international outlook remains relatively unchanged, does not worsen.

Excess capacity is always a threat to prices, but with high capital investments and labor rates, industry certainly will be making every effort to stabilize the price structure. Even so, if things get much more competitive than they are now, some prices are bound to decline. However, I think there are worse threats to our price structure than our own over-capacity, which I will touch upon later.

So from where we stand today it appears that for the immediate future, that is, during 1954 particularly, we may see some softening of prices and possibly some decline in total dollar value of production. I say "possibly" because there will be some compensating forces at work so that when we take chemical production and lump it all together I think that if there is a decline it should not exceed 10%.

There will probably be some lag in old line industrial chemicals and drug intermediates, the latter of which are currently suffering both from imports of foreign materials and the development of new medicinals. Ethylene glycol for anti-freeze has had an unfavorable inventory condition which seems likely to continue into 1954, and any reduction in automobile sales would tend to aggravate this. A reduction in output of synthetic rubber is in prospect because of reduced prices of natural rubber, and in pesticides, for example, some products are becoming surplus as newer products replace them.

On the other hand, we feel that petrochemicals will continue to offer the best prospects for next year. Within this group, plastics, synthetic fibers, synthetic detergents, resins for protective coatings and chemicals for pesticides and herbicides should show the greatest growth. Chlorinated products, both for solvent usage and for chemical manufacture also look good.

Products made from ethylene and benzene should continue strong, and products made from acetylene are becoming more important. Antibiotics should sell in volume, with new ones coming along. Ammonia is in strong demand both as a fertilizer and for chemical synthesis.

Obviously many basics, like inorganic acids and caustic soda, can be expected to pretty much parallel chemical and general manufacturing activity, in whatever direction that goes. So taking it all in all it looks to us as though the chemical industry, because of its diversification, should ride through this phase of the cycle on a fairly even keel.

In our own case we rather anticipate some lag in our industrial chemical line. But we expect good support from magnesium and agricultural chemicals and an increase in plastics. In the latter division several new products should be helpful in advancing the overall volume. We will have greater production of polyvinyl chloride, a field we entered only a few months ago, and 1954 should see us in production on polyethylene. It will also see us producing an entirely new monomer, vinyl toluene, which holds good promise for plastics and other uses.

Meanwhile we have not been standing still in developing our older plastics. We have a new latex of the saran type for coatings applications and will be coming out with what might be called styrene alloys. These are copolymers of styrene in combination with other monomers. Some have application in the coatings field, while others will be of interest to the plastics molding industry.

Again, if we look at some of our most important customers we find we are looking at plastics molding, agricultural, oil, textiles, protective coatings and so on—industries which we might expect to hold up comparatively well in the face of a general economic slow-down. As I have said many times, we have our eggs in many baskets and feel that puts us in an advantageous position for facing "rainy days."

I won't go into the financial picture in more detail, but I'll just say that it looks now as though we will have a good but of course not a stupendous year. Expiration of the EPT will be helpful to our earnings, but the "help" probably won't show because of increased depreciation. Last year we paid $5½ million in excess profits tax —equal to 25 cents a share—and our parent company base this year will be between $70 and $75 million. But we will have an added $13 million of depreciation, so if we cannot increase our dollar earnings we are at least earning plant.

Well, a moment ago I mentioned other threats to our price structure. I am thinking not of 1954. I am thinking long range, and I am thinking specifically of our current great controversy—U. S. tariff policy.

I may as well say at the outset that I am by instinct a "high tariff man." Historically I know that our company might have passed out of existence early in the century had it not been for the protection, or partial protection, of import duties on such commodities as bleach and bromides. And I am certain that our growth, as well as that of the chemical industry generally, would have been far indeed from spectacular had the United States in this first half of the century been committed to a policy of free trade. Dow has never feared domestic competition, but it has always had good reason to fear foreign competition — from the time Herbert Dow battled the German bromine convention in 1906.

The idea of free trade—of allocating each productive job to the most efficient—is theoretically and philosophically very appealing. I think it would be very nice if the world could become that economically civilized—but I do not expect to see that state of utopia in my lifetime, nor, I think, will my grandchildren live to see it.

In the very first place it assumes that the world can be assured of lasting peace and cooperation—that no nation need worry about the necessity of preserving and encouraging industries vital to its defense. Unfortunately, we seem if anything less far along the road to world peace than we might have appeared 50 years ago. So we have a very real and important reason for remaining as self-sufficient as possible in production essential to our civilian and military well being.

In the second place, if we are properly to determine who is the most efficient, does it not necessitate a somewhat more comparable standard of living among the various peoples of the world? If an English manufacturer, for example, requires *twice* the human input we do in making product X but can still undersell the American manufacturer because he pays only 20 to 25% the wage rates, is he *truly* the most efficient? On the contrary, it seems to me that he is definitely the *less* efficient . . . and that his advantage in the marketplace is had only at the expense of the standard of living of his employees. Truly superior efficiency can come only from superiority in resources, in technology or in skill. So our beautiful theory breaks down.

In this country we do not believe in child labor or the sweatshop. We have achieved, and believe in, a high standard of living. Is it logical for us to adopt policies which take advantage of the foreigner's *low* standard and at the same time would tend to drive our own standards down toward the level of his?

In the third place this beautiful theory assumes truly free trade among the world's nations. It assumes the open competition of private enterprises. It assumes that competition is not to be restricted or artificially influenced by such things as trade quotas, governmentally subsidized industries, cartel marketing or other arbitrary price fixing arrangements, manipulation of currency and so on.

This brings us to some very practical considerations. The economic ill health, if such it be, of the free world is a highly complex malady. World trade is hampered by all the restrictions and artificial stimuli I just mentioned, plus many more. Thus far I have heard of no proposals to eliminate or reduce these factors. In other words, our current free trade agitation appears as an all-take-and-no-give proposition.

Underlying all this is the basic failure of most foreign countries to understand that mass production depends upon mass consumption. We have developed, among our own people, the greatest mass market in the world, and it is understandable that other countries look upon it as a most desirable outlet for their products. Yet they have done little to encourage similar mass consumption within their own borders.

They do not understand our industrial and consumer acceptance of obsolescence. They consider it wasteful. Likewise they consider our highly developed advertising and promotional techniques in the light of economic waste. They somehow have not discovered that these techniques and attitudes are the secret of the very mass market they would like to tap, and therefore, that they could take steps to further similar techniques and attitudes among their own people.

As Peter Drucker expressed it in "Harpers" a couple of months ago, Europe has an invisible brick wall in the form of a goal that sets up "prewar" (pre-World War I, he says) as the state of perfection. In other words, they seem incapable of looking forward for being preoccupied with looking backward. In this country we have capitalized on the precise opposite viewpoint.

Now, let us take just one more pertinent fact. From the current agitation for tariff reduction or elimination, one would gather the impression that we are being unfair . . . that we are a high tariff country. Such is not the case. Our total customs collections amount to less than 5% of the value of our total imports—and that is lower than for any major European nation. The United Kingdom's even runs in excess of 25%.

Now, considering all these facts it appears to me that even the total elimination of all U. S. customs would have very little effect in alleviating the manifold problems of foreign nations. Conversely, such a move would be hazardous to the maintenance of our own living standards, and certainly hazardous to the industrial self-sufficiency so necessary to our defense.

I submit that the world is not, and may not for many years be, ready for truly free trade—and that until such time as the world *is* ready for lasting peace and cooperation among nations we must jealously guard our own economic well being and the policies and practices which have made it possible.

*An address by Dr. Doan at the Great Lakes Regional Conference of the Cleveland Society of Security Analysts, Cleveland, O., October 13, 1953.

Fisher Chairman of New York IBA Group

Robert W. Fisher, a Vice-President of Blyth & Co., Inc., was elected Chairman of the New York Chapter of the Investment Bankers Association at the Chapter's annual fall forum and dinner.

Robert W. Fisher

Actively identified with the IBA for 25 years, Mr. Fisher served as Chairman of the Educational Committee for the New York Chapter for eight of the last 10 years and has served on the National Education Committee during the same period. He was the organizing President for the Joint Committee on Education which was founded in 1947 by component organizations in the investment business, including the New York Stock Exchange, New York Curb Exchange (now American Stock Exchange), the Association of Stock Exchange Firms, and the National Association of Securities Dealers.

As Chairman of the Chapter, Mr. Fisher succeeds William M. Rex of Clark, Dodge & Co. Rudolph Smutny of Salomon Bros. & Hutzler and Richard A. Woods of Merrill Lynch, Pierce, Fenner & Beane were elected Vice-Chairman and Secretary-Treasurer, respectively.

Thomas L. MacDonald

Thomas L. MacDonald, for many years in Wall Street, and formerly a partner in T. L. MacDonald & Co., passed away at his home on October 16.

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A More Liberal Trade Policy in Offing

By WILLIAM S. SWINGLE*
President, National Foreign Trade Council, Inc.

Foreign trade spokesman expresses view future U. S. foreign trade policy would be reasonably but not excessively liberal, while "our stake in world trade has grown far too great to permit the sudden adoption of any highly restrictionist measures." Discusses question of future tariffs and other barriers of trade, but contends creating world business confidence and expanding world trade involves far more than adjustment of U. S. import tariff schedules. Scores inflationary monetary policies abroad and treatment of foreign investments in some countries and areas.

In presenting a review of the impressive current situation of American international trade and investment together with observations on the problems that lie ahead in this field, I wish first to journey back briefly into the historical background. Confining this in the main to fairly recent times will enable us to develop a realistic concept of the position today of American business in international relations.

William S. Swingle

An economic characteristic of the latter half of the last century was the understandable preoccupation of United States business leaders with the development of the production and distribution facilities required to serve the enormous needs of our domestic market. That market was continental in scope and yet significantly free of inter-state trade, currency, and investment restrictions. True enough, booms and slumps were experienced but the overall result was the accomplishment of great economic progress. In order to broaden the base for the growth of business, more and more American companies, notably after the turn of the century, ventured into world trade. Many of them developed sound and profitable international operations. In 1914, a landmark to an expanding American foreign commerce was established. In that year a number of public-spirited leaders of American industry organized the First National Foreign Trade Convention at Washington in a concerted effort to analyze the conditions which faced them, and to contribute to the development of sound and constructive commercial policies. Historically, the holding of the Convention signified that foreign trade had ceased to be merely a side issue of American business, and had won recognition as a vital and major component of our economy.

Thereafter, for a quarter of a century, the American drive to penetrate markets and to seek new sources of supply throughout the world picked up momentum. Remarkable gains in the value and volume of exports and imports were attained until the depression years brought with them a steep decline and grave setbacks. Many of you will recall the economic and financial vicissitudes of those still recent times. Our own country, along with many others, too frequently turned in ill-advised haste to spurious policies which may be summed up under the heading of autarchy, or economic self-sufficiency. The trade agreements program initiated by former Secretary of State Hull represented an exception to the more general rule. Considering the severity of the world-wide difficulties which then prevailed, much was accomplished to counteract the philosophy and practices of extreme nationalism and restrictionism. The darkness of the world economic picture during the depression years was intensified by the application for political purposes of doctrines of government-managed production, currencies and trade. Nevertheless, American foreign traders and investors, noted as they are for enterprise and tenacity, maintained a volume of business which, in retrospect, looks surprisingly large.

*An address by Mr. Swingle before the Northwest World Trade Club, Minneapolis, Minn., Oct. 21, 1953.

There is apparently a widespread belief that American private foreign trade largely came to an abrupt halt at the outbreak of World War II and started up suddenly again when the war had been won. Such was not the case. Although controlled by the government probably even more rigidly than business at home, foreign trade was carried on throughout the war years. The difficulties and uncertainties were enormous, but our country and the countries allied with us reaped economic advantages from the wartime commerce. The harvest of American traders, let us recall, consisted frequently of headaches but with the sense of an essential job well done.

Postwar Development

The period from the end of 1945 to the present has been packed with momentous military, political and economic events. To summarize the economic events alone is a task about comparable to reducing the plays of Shakespeare to a page or so. However, of outstanding interest in the field of foreign trade are several plain facts. American exports have been sustained at an average of nearly $1½ billion a month since the close of World War II. By the end of 1953, the total of our exports (exclusive of military items) over the 8-year span will have reached approximately $135 billion. While a substantial part of this business was covered by aid programs, we should bear in mind that imports into the United States during the same years amounted to $95 billion. By far the greater proportion of American trade with other countries during this period has been on a basis of exchange of our goods and services for goods and services from abroad. The current situation is indeed impressive. In 1953 alone the total value of exports and imports is expected to range close to $34 billion, which compares with the $5 billion level of 1914. Our country is conducting international trade on a larger scale than any other country in the world. At the same time a decline in exports of agricultural products and fuel is taking place, and the competition faced by exporters of finished and manufactured products is growing more and more intense in numerous overseas markets so that we can not be complacent about our foreign business. On the other hand, the immense total of our world trade stands at the present time as a solid and striking indication of the continuing forward progress of American productive and distributive techniques. For the first year in about two decades the international commercial transactions of the United States are substantially in balance. In fact, foreign countries are adding to their gold and dollar reserves between $2 and $2½ billion this year, which augurs well at least for the near future. To sum up the current picture, the high levels of our international commerce are yielding economic benefits of great importance to industry, agriculture and labor from coast to coast in our country. Beyond our borders, the terrific volume of our trade forms a vital factor in the economic strength and development of many friendly countries.

U. S. Direct Investments Abroad

Closely linked with international trade are the direct investments of United States companies abroad. These capital placements in wholly or partially American-owned enterprises in foreign countries have now reached the total of $15 billion, a figure exceeding by a clear margin the similar international investments of any other country. In most cases the enterprises operated by our fellow countrymen in other lands are returning attractive earnings. The contribution they make to economic development and better living standards within the host countries is outstanding. Yet, despite the obvious advantages of cooperation with American private enterprise, our existing investments in many parts of the world are compelled to contend with a wide range of difficulties, and the atmosphere encountered by prospective new investors is all too often forbidding. In spite of this it is a fact that American private direct investment abroad is impressive and represents a powerful growing factor in our world-wide commercial relations.

An outstanding aspect of American foreign commerce, which over the years has grown to be one of its most beneficial characteristics, is the great diversification of products entering into the country's export and import commerce. On Monday, for instance, you may talk with a man accustomed to dealing in one line of goods going to one country or area of the world. He may inform you gloomily that foreign trade is about to breathe its last gap. But on Tuesday, Wednesday, Thursday or Friday you may talk with other men, selling or buying different articles in other countries and areas. They will tell you briskly and with satisfaction that foreign trade is flourishing, better than ever. In the whole forward sweep of progress in our field there have been numerous business casualties and disappointments. Very likely there are more to come. Yet overall progress has been made, and the outlook is for further gains, owing in part to the exceptionally wide variety of agricultural and industrial products abounding in our foreign commerce and the ability of American business to meet the changing requirements of trade. We can take encouragement from knowledge of the ever broadening diversity of American economic activity, and from knowledge of the vast range of world needs.

The developments of the future are dependent to a large extent on policy set at high governmental levels. Manufacturers, traders, investors, bankers, transportation and insurance companies and all the other elements of business and trade require a framework of encouraging and dependable governmental policies. Otherwise, they cannot make the world economy function to the greatest advantage of all countries and peoples. Inasmuch as the United States has attained its position as the most outstanding foreign trading and investing country, we must shoulder certain obligations of leadership. The problems ahead must not be examined exclusively in the light of our own interests but must take into consideration a broad world picture. One fundamental proviso is in order, no nation can lead unless others are prepared to follow, or, stated more accurately in regard to sovereign countries, unless they are prepared to cooperate.

Question of Tariffs and Trade Barriers

The question of tariffs and other barriers to trade arises at once when we consider the course ahead. Over a lengthy period of time our American policy has been to reduce or eliminate, through gradual and selective means, unnecessary or excessive import duties. In applying this policy, we have required that other countries extend concessions of commensurate importance to our trade, subject to balance of payment controls. Currently, this policy is under exhaustive study by various official bodies. What the ultimate outcome in legislation and in administrative practice may be none can now definitely foresee. We are entitled to anticipate that these responsible groups will neither narrowly nor capricously treat so essential a part of our economy as foreign trade and investment. The goal of creating a world atmosphere of business confidence, which certainly must be established if further great economic strides are to be made, involves far more than the adjustment of United States import tariff schedules. The effort to expand international trade and business is one requiring the combined participation of many nations through adherence to basically sound economic, commercial and monetary policies. Disputes and debates are in prospect. The extremists on both sides will have their say. My conviction remains that calmer voices will prevail and that the United States will emerge next year with a sensibly liberal long-range policy with respect to imports and all aspects of our foreign commercial relations. Our stake in world trade has grown far too great to permit the sudden adoption of any highly restrictionist or in fact excessively liberal policy.

Weak Monetary Policies

All of us are well aware that monetary practices and foreign exchange procedures are able to exert far-reaching influences over international commerce. Insidious depreciation of the dollar and creeping inflation of prices had apparently been the settled financial approach during an extensive era. From the point of view of sound economy and of general international business confidence, this approach constituted a disservice to world trade. The world holds forth but a few shining examples of nations which have steadfastly adhered to sound money policies. These few are more than sufficient to illustrate the benefits in the form of economic advancement to be gained from a proper respect for the classic monetary approach including greater freedom of capital markets and foreign exchange. On the other side of the picture, there are dozens of examples of countries in varying stages of economic distress brought on by weak and make-shift monetary expedients employed to stave off the inevitable day of reckoning. One of the greatest contributions which the United States could make to the furthering of international commerce would be to work toward tougher and saner financial policies. We can go about this first by setting a good example ourselves, and, secondly, by utilizing whatever powers of persuasion and influence we may appropriately bring to bear.

U. S. Investments Abroad

A third major question which we shall have to try to settle in the field of international economic policy consists of the approach to be taken in connection with private foreign investment. American private capital will assuredly seek employment abroad in amounts considerably above the present $15 billion level if conditions for its safety and for businesslike operations are established to our greater satisfaction. In some countries conditions affecting foreign investment are quite satisfactory. Such countries are gaining solid advantages from the presence of United States private capital and from the accompanying application of American productive and distributive techniques adapted to local environments. The hostility and suspicion with which private enterprises exploring investment possibilities are greeted in some countries and areas abroad must be overcome. It would richly repay the leaders of these countries to forego indulging their political ideologies and to set forth on a constructive path to economic cooperation and advancement. In other countries, higher on the scale of economic development, the necessity should be recognized of turning away from policies of rigid and pervasive regulatory controls imposed on management. Aonther barrier to sound investment, whether foreign or domestic, takes the form of government competition with private industry. This is not the economic approach, and usually resolves into a method of economic self-strangulation. The burden of correcting these conditions and creating a more favorable climate for investment rests primarily with the foreign countries themselves. But there are a number of steps which the United States might take unilaterally to stimulate the outflow of private investment capital. It can be made plain that public funds will not be lavishly dispensed for foreign economic projects. A worthwhile incentive could be achieved through the establishment by our own government of a simpler and more liberal regime of United States taxation of income from foreign sources. The program of negotiation of treaties of commerce, navigation and economic development can be carried forward.

Services Essential to World Trade

In looking ahead at some of the major questions of the future we have touched on trade barriers, monetary policy, and the conditions for foreign investment. Equally deserving of treatment within the highest considerations of foreign economic policy are the services and facilities vital to the conduct of world trade. Transportation by rail, sea and air is essential to commerce. For the good of our foreign trade, policies are necessary looking to the maintenance of strong, privately owned, American international transportation services which can be relied upon at all times. The availability of American insurance protection on open-market terms of equality with insurance underwriters abroad is highly desirable. The possibilities of making arrangements enabling our private banks to extend accommodations for longer-term financing ought to be thoroughly explored. We have taken note of the immense volume of international trade which our own and a preceding generation have built up to the great benefit of the United States

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and more broadly to the advantage of the world. The maintenance and expansion of this trade represents a challenge. This challenge, as I have indicated, includes the achievement of sound, realistic economic policies both at home and abroad. This challenge also involves greatly intensified competition in the markets of the world. Every resource of productive and selling technique will be needed to help us carry on against able, astute and aggressive competitors. Furthermore, we must meet and overcome to the best of our ability the obstacles set up or threatened through the extreme nationalistic approach of some countries abroad. Simultaneously, we shall have to contend with those whose aim is to place world business under intergovernmental restriction and control. In summary terms, we are challenged to perform our highly essential duties in a world where governments often go out of their way to compound the hazards and difficulties.

In examining the nature of the opportunity presented to us at this stage of the growth of America, I wish to refer to a statement made by Mr. Juan T. Trippe, President of Pan American World Airways, who is serving as Chairman of the National Convention Committee of the 40th National Foreign Trade Convention to be held this November. He said: "Opportunities for commercial development are plain all over the world. Friendly international relations of necessity flow from healthy international trade. Freed of outmoded double tax burdens, and other road blocks, American private enterprise can help carry forward the economic development of the free world in an atmosphere of mutual respect and confidence."

During a period extending just over two generations United States business has achieved extraordinary gains in the broad and complex field of world commerce. Facing the wartime restraints and regulations of two global conflicts, and facing also the difficulties of a prolonged world depression, American business has won through to the premier position in world trade and investment. The examples of other countries, however, warn us that we must never rest on our oars nor take economic ascendancy for grated. There is a full quota of serious problems to be met in the months and years ahead.

The business and political leaders of the United States will be in the best position to arrive at wise policy decisions through bearing constantly in mind that thousands of substantial companies and several millions of employees depend upon foreign trade for their prosperity and livelihoods. Given the high policy assistance which we must have, we shall meet the challenge that confronts us, take advantage of the opportunities that lie before us, and pursue our goal of trade and investment progress.

Lakeside Securities Corp. Formed in Chicago

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—The Lakeside Securities Corporation has been formed with offices at 310 South Michigan Avenue to engage in a securities business. Officers are Tobias R. Shiner, President and Treasurer; Joseph F. Hammel, Vice-President, and Bert E. Larson, Secretary. Mr. Hammel was formerly with McDougal & Condon, Inc.

Paul J. Engel

Paul J. Engel, partner in Charles Weinstein & Co., New York City, and a member of the American Stock Exchange, passed away at his home at the age of 68.

Bank Instalment Lending Being Stabilized

By JOHN REILLEY*

Vice-President, The Pennsylvania Company for Banking and Trusts, Philadelphia, Pa.

After revealing growth of instalment loans by banks, Mr. Reilley contends, although this form of credit may not rise much above present level, there is no reason to assume there'll be any significant decline in it. Says now is time for banks to review their instalment lending policies and improve quality of such credits through comprehensive audit programs. Warns bankers have responsibility of keeping instalment credit sound.

Instalment lending is not a new phenomenon. Its history goes back a good many years; however, its growth as we recognize it today, did not commence until the middle 1920's. The production of automobiles, a high priced consumer item, actually forced the development of the instalment buying method. Since then, household appliances and other durable goods have been widely sold on an instalment basis. Banking has taken an active part through this period of development. In the beginning, however, the participation of Banks was limited to what might be called a wholesale function. We extended credit to finance companies, loan companies and others, who in turn extended the retail credit. Recognition for the development of policies and techniques upon which this instalment service has been built, must be given to the sales finance companies and other lending agencies who were operating in this field for many years before we became involved. The soundness of instalment lending became apparent during the depression of the 1930's when this type of credit liquidated exceedingly well in comparison with other types of loans or mortgages. Instalment lending is providing an opportunity for Banks to broaden their field of service to include people from all walks of life as well as all income groups. Once Banking entered this field of instalment lending, its growth has been astounding. This development by Banks over the past 20 years has certainly brought new energy into the promotion of Banking services.

John Reilley

In 1945, at the close of the war, the total instalment loans outstanding with Banks throughout the United States, amounted to $700 million and at the close of the year 1952, this figure amounted to $7½ billion representing 45.5% of the total outstandings compared with 32.1% at the end of 1941. This is truly a remarkable growth. This phenomenon of growth is not too amazing when we stop to ponder a moment. A good portion of this instalment credit business literally walked into Banks as soon as the world got around that Banks were willing to consider the granting of such credit to dealers and individuals, indicating a need and desire for this service. Coupled with that advantage was an effective and imaginative business development program carried out by our Banks.

An interesting survey conducted by the Instalment Credit Commission of the American Bankers Association during 1952 among 150 outstanding Commercial Banks engaged in this type of lending, showed the total gross income from instalment loans when related to the total gross income from all loans, amounted to 31.52%.

A Period of Stability Coming

The outlook for the nation as a whole, indicates that although instalment credit may not rise very far above the present plateau, there is little reason to assume a decline of any consequence. Today we find a very high proportion of all American families using this method of paying for at least one or more durable goods purchases. It is also obvious that, as resistance builds up in the automobile and household appliance markets, a greater emphasis will be placed on instalment selling which will add further to the demand for this type of credit. A survey conducted by the Federal Reserve in 1952 indicated that one group and a very important group in our national economy is a heavy user of this credit. That group is the young married people who have been unable to build up the liquid assets necessary to establish a home with the furnishings and other durable goods that go along with it. Nine out of ten young families in this group are presently obligated under instalment credit loans, in some instances in amounts up to 20% of available income. On the long range side of this picture, promising a continued growth of instalment loans is the recognized popularity of instalment buying. This was not true many years ago when many people were wont to apologize for using such a method to pay for goods and services. A great deal of the recent rise in instalment credit is probably due to an increase of the number of instalment buyers rather than to a greater use by substantially the same group.

We also have a substantial social as well as financial responsibility to our customers. Certainly, Banks dare not develop their volume of instalment loans without the exercise of care. They should do nothing that will unduly encourage unwise acquisition of instalment debt, whether the excessive debt is collective or of individual influence. A poorly made instalment loan may be a minor financial loss to the lender, but it can create a major family tragedy for the borrower. All of the know-how and skill are on the side of the lender, and, as in the past, he must take the rap for poor lending, and not the overly optimistic borrower.

Time to Improve Quality of Credits

Now is the time to review our lending poliices, and improve the quality of our credits both from a dealer level and from an individual level. Watch your dealer wholesale or floor plan lines. Don't allow inventories to become stagnant. By the same reasoning, don't freeze the wholesale or floor plan line of a dealer who demonstrates his ability to move the merchandise. On your individual or personal loans, be more thorough in your credit checks. Be more sure of your individual borrower's ability to repay. It is imperative that our Banks continue to extend instalment credit whenever necessary to people of good character with the ability to repay these debts. On the other hand, our responsibilities as Commercial Bankers require constant re-examination of our lending policies in light of current economic conditions. There are indications of difficulty in some of our retail markets—losses that have not occurred over the past ten years or so, are likely to be experienced very soon. It is imperative that our credit and collection policies reflect that possibility.

Let us also review our other internal operations and procedures, such as our Accounting, Bookkeeping and Collection Units. In many instances, our methods and systems have not kept abreast of the increase in outstandings. Realize and learn the difference between commercial lending and instalment lending techniques. This is an important point to get over to your top management. It is just as important for you as auditors to be conscious of proper techniques in your instalment loan operations as in your other Bank operations.

The foregoing brings me to my opinion regarding a comprehensive audit program. This is an absolute necessity. Our comptroller's department has two full-time auditors and two stenographer clerks assigned to our instalment lending operations. There is a close liaison between our instalment lending officers and the comptroller's office. Our department is set up entirely independent of other Bank operations. We operate our own General Ledger which includes the usual income and expense controls, accruals, etc. Sometimes, these four assigned people aren't enough to do a required job. Naturally, additional personnel are assigned as needed by the comptroller's office. I do not intend to discuss with you the details of what we consider "required auditing" as they are probably well known to you. I will mention, however, several which to us, are of real importance. Concerning wholesale loans, which are a real hazard, these should be periodically inspected, at least monthly. Your comptroller's office should review these inspection reports. They should make occasional physical "on the spot" examinations with your wholesale inspectors. This checking will do much to eliminate the problem of conversion. Rotate your inspectors and stagger inspection dates. If a dealer decides to withhold payments, intelligent checking will probably show it up before he gets too far involved with you. It is of utmost importance to use the proper inspection forms. The confirmation of retail purchases is also vitally important as a protection against fictitious paper. I would suggest a minimum confirmation of 10% of the retail accounts purchased monthly. This can be done by three methods; mail, telephone or personal contacts. We use all three alternately. Be on the alert for retail payments coming from dealers. These should be checked as this practice could indicate fraud.

I have mentioned only a few external controls as I feel you probably know of the internal controls which are necesary. I hope what I have said will provoke some questions in your mind and I will do my best to answer them. Please let me emphasize and restate that today, it is very important that you as comptrollers and auditors, know what is going on in your instalment lending operations.

Another side of this business that is giving a lot of concern to Bankers is the matter of adequately trained personnel. In some instances, the business has outgrown the Bank's ability to train the people required to handle it. One of the reasons for this is the high employee turnover and shortage of labor. Instalment lending is a highly specialized business and cannot be successfully managed if it is not kept within required standards, and in today's labor market it is not easy to get people who have had experience and training in this business.

Because of the great detail involved in an instalment credit operation and because of the need for meticulous care in following the flood of detail, this type of operation demands the constant attention of our auditing and comptroller's divisions so we can be assured of sound methods and procedures, functionally adequate and yet economical in application. Your Association has done a great deal in the past few years to fill this need, yet I am sure you will agree that a great deal more remains to be done.

*A paper presented by Mr. Reilley on Consumer Instalment Credit at the 29th Annual Convention of the National Association of Bank Auditors and Comptrollers, N. Y. City, Oct. 20, 1953.

Paul Bechard Joins Geo. B. Powell Co.

NORFOLK, Va.—Paul F. Bechard is now associated with George B. Powell & Company, Investment Consultants, 117 W. 21st Street, specializing in mutual funds and planning financial programs.

Paul F. Bechard

A former resident of Holyoke, Mass., he is a graduate of Williston Academy and Massachusetts Maritime Academy. Mr. Bechard served in the merchant service and in the U. S. Navy where he was released to inactive duty with the rank of Lt. jg. in the Fall of 1951. At that time he became Treasurer and Manager of the E. E. Avery Insurance Agency, Inc., Plymouth and Boston, Mass. Mr. Bechard terminated his association with this firm in order to complete a year of graduate work at the Babson Institute of Business Administration at Babson Park, Mass., majoring in security analysis.

R. B. Rader With Clark, Landstreet Co.

MEMPHIS, Tenn. — R. Bruce Rader has become associated with Clark, Landstreet & Kirkpatrick, Inc. as Manager of their newly opened Memphis office in the Union Planters Bank Building. Mr. Rader was formerly with the Memphis office of Mid-South Securities Company.

T. J. McCormick, Jr. Joins Byrne & Phelps

Byrne and Phelps, Inc., 44 Wall Street, New York City, announce that Thomas J. McCormick, Jr. is now associated with the firm in its trading department. Mr. McCormick formerly was with American Securities Corp. in the municipal bond department.

With Kalman & Co.

(Special to THE FINANCIAL CHRONICLE)

ST. PAUL, Minn.—Richard D. McFarland has been added to the staff of Kalman & Company, Inc., Endicott Building.

Edward C. McNulty

Edward C. McNulty, associated with Chas. W. Scranton & Co., New Haven, Conn., in their bond department, passed away.

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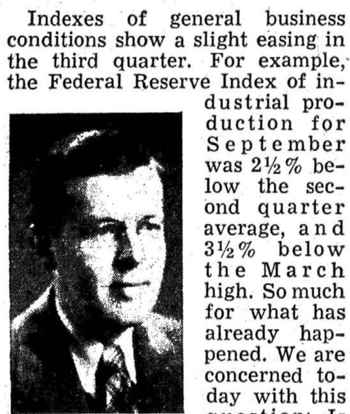
We'll Have Only an "Average" Recession

By JAMES M. DAWSON*
Economist, National City Bank of Cleveland

After describing techniques for forecasting future trend of business, Mr. Dawson holds statistical indicators point downward. Maintains, however, recession will be no worse than "average" over the last quarter century, excluding, however, depression of 1926-36. Lists reasons for this conclusion, and finds a bullish factor in probable excess of borrowing over savings in 1954.

Indexes of general business conditions show a slight easing in the third quarter. For example, the Federal Reserve Index of industrial production for September was 2½% below the second quarter average, and 3½% below the March high. So much for what has already happened. We are concerned today with this question: Is business going to drop some more, and if so how severe will the decline be and how long will it last?



James M. Dawson

There are two popular techniques for forecasting the future trend of business. One might be called the Gross National Product approach and the other could be termed the Key Business Indicator method. Let us look at what those two techniques have to tell us about the outlook for business.

Forecasters who use the Key Business Indicator method watch a group of statistical series that in the past have behaved in a certain way prior to a general business decline. There are ten such indicators on the list I watch and almost all of them have been flashing a red light during the past six months. Here is the list, which I like to describe as The Economic Climate Prior to a Business Recession:

(1) A boom in durables with non-durables slipping in relative importance.

(2) Retail sales strong, but level.

(3) Inventory accumulation underway

(4) Manufacturer order backlogs slowly declining.

(5) Raw material prices soft.

(6) Low-price common stocks weak, overall market slipping from bull-market highs.

(7) Some easing in residential housing awards, although total construction strong.

(8) Money supply declining a little or level.

(9) Money rates tightening, with new capital issues setting records.

(10) A gradual decline in the length of the work-week.

The Gross National Product Approach

Now let us consider the Gross National Product approach and see if it too compels us to expect a downturn in business. Here it is necessary for us to appraise the outlook for each of the major components of total national production. The current situation with four of these components is quite similar and therefore I would like to consider them as a group. The four are residential construction, passenger cars, plant and equipment for business, and business inventories. I group them because they have certain common traits: (1) There was a shortage of each at the end of World War II; (2) extra production in the postwar period has just about made up for the shortages, and (3) an important share of the output of these items is paid for with borrowed money.

Let me take automobiles as an example. Long-term trends suggest that there should have been about 35 million cars on the road at the end of World War II and 45 million cars today. There are about 45 million cars today, but there were only 25 million at the end of the war. Thus the automobile industry has produced enough cars in the postwar period to provide normal growth and in addition has made up for the ground lost during the war. Apparently the auto industry itself believes this to be true because they are talking in terms of 5.5 million cars next year as against 6.2 million this year, or a decline of 11%. A comparable situation seems to exist in residential construction, plant and equipment and business inventories. There is already some weakness in residential housing starts. The Government survey of plant and equipment intentions predicts a drop in outlays for the fourth quarter and it is certainly true that business inventories are ample.

A drop back to "normal" on these four segments of the Gross National Product would represent a direct cut of perhaps $10 to $12 billion. But adverse indirect effects are also possible because the people who have been producing the extra cars and the extra houses and the extra plant and equipment and the extra inventories will in turn have less income to spend. That is because much of this extra output of cars and so on has been paid for with borrowed money. If the extra output is no longer needed, it is to be expected that there will be a concurrent reduction in borrowing and in the payrolls which were supported with borrowed money. To illustrate, in the past 12 months automobile instalment credit has expanded $2¾ billion, but if output is cut to 5½ million units next year there will probably be little or no net growth in such debt.

Of course, the reduction in personal income taxes will bolster consumer spending and so too will the increases in wages which will surely persist so long as business remains good. However, it does not appear likely that these factors could offset the direct and indirect effects of cutbacks in cars, houses, plant and inventories. Nor can one look for an offsetting force in Government spending. There is every indication that contemplated reductions in the rate of Federal spending will at least counteract any possible gains in spending by State and local governments.

To sum up, it seems to me that both the Key Business Indicator and the Gross National Product forecasting methods point downward.

How Severe Will Be the Depression?

Now let us turn to the problem of how severe the decline is likely to be. As a starting point let us assume that a recession is now starting and that it will turn out to be an "average" recession. That is, let us suppose that in severity and duration it will be an average of the recessions of 1920-21, 1923-24, 1927-28, 1937-38 and 1948-49. I have left the 1929-32 period out of this calculation simply because a repetition of that seems impossible. The "average" recession in terms of the Federal Reserve Index would give us a low quarter of around 200 next summer, an average figure for 1954 of about 207, and full recovery by late 1955.

Now there is nothing to fear in a recession of that magnitude. It would mean industrial production only about 13% below 1953 and even the low quarter on the Index would be as high as the record peacetime month set just before the Korean War began. It would mean a Gross National Product perhaps 6% lower than 1953. The experience of 1938 and 1949 suggests that corporate net profits would be in the neighborhood of $14 billion versus $20 billion in 1953, and the $14 billion is well in excess of the current $10 billion rate on corporate dividends.

Significant Points

Can we build a case for the proposition that the recession will be no worse than the "average" described above? I think we can and here are the points which I feel are most significant:

(1) Although output of cars, houses, plant and equipment and inventory have been above "normal," there is no indication that excessive supplies of these items exist. That means there is no necessity for less than normal production.

(2) Economic excesses such as the commodity price inflation of 1920 and the stock market speculation of 1929 fortunately are missing. It has been charged that the great distortion in the current picture is in the tremendous growth in debt. However, the ratio of total debt to the Gross National Product is on the low side when compared with past years.

(3) The fact that a recession is expected is encouraging. What is expected can be taken in stride. A corollary consideration is that businessmen not only expect a recession, they also expect a recovery and a long-term upward growth for the economy. Industrial production has been doubling in this country every 20 years and most important companies are going to carry on their expansion programs with an eye to the levels of 1960 rather than to the temporary setback expected in 1954.

(4) The factor that is most encouraging to me is the prospective relationship of saving and borrowing during 1954 in the event a recession is underway. Borrowing will probably exceed saving in such a year and that is bullish for business.

Think of it in this way: The saver, whether an individual or a business or a government, spends less than income, and that is a deflationary force. On the other hand, the borrower spends more than income and that is an inflationary force. To the extent borrowing exceeds saving, a net addition is made to the spending stream and that is stimulating to the economy.

In the more serious recessions of the past, saving has declined but total borrowing has dropped even more and the result has been deflation. In a 1954 recession, saving would presumably decline again and so would private borrowing. However, borrowing by government probably would increase enough so public and private borrowing combined would exceed the volume of saving. The unique aspect of the current picture is the increased importance of the Federal budget in the total economic picture, plus the great sensitivity of the cash position of the Treasury to changes in the trend of business.

When borrowing is exceeding saving an expansion of demand deposits occurs in the banking system, whereas an excess of saving is ordinarily accompanied by a shrinkage of demand deposits. It is, therefore, worth noting that during the severe recessions of 1920-21, 1929-32 and 1937-38 a rather sharp deposit shrinkage occurred. On the other hand, in the mild recessions of 1923-24, 1927-28 and 1948-49 the demand deposit shrinkage was mild or non-existent. Thus there is historical support for the idea that the relationship between saving and borrowing has an important bearing on the severity of a recession.

An extra word is in order with respect to the seasonal aspects of the saving-borrowing relationship and the trend of demand deposits. A depressed 1954 would still see a seasonal shrinkage in deposits during the first half of the year, inasmuch as saving (which includes the Treasury cash surplus) would be running ahead of borrowing. However, from mid-year on the volume of borrowing would exceed saving by a wide margin and the growth in the money supply would be rapid. That is a reason for expecting that the low-point in this recession would be reached by next summer, with recovery underway in the latter half of the year.

*An address by Mr. Dawson at the Great Lakes Regional Conference, sponsored by the Cleveland Society of Security Analysts, Cleveland, O., Oct. 13, 1953.

Continued from page 11

The Shape of Business Now

was restored to its prewar normal of about 0.95 families per house about a year ago. It is today at levels that in the past have signaled caution. With the current level of family formation about 650,000 per year, substantially lower than the postwar average of about 1,000,000, it is not illogical to anticipate a similar contraction of new housing starts for the next several years.

Since the war, there has been an increase of 70% in motor car registrations. Here again, it begins to look as though the demands for new cars in the year ahead must rest more on replacement demand, than on an expansion in the number of cars per family. True, the replacement demand should continue to be quite satisfactory for several years to come since about 20% of the present motor car fleet is more than twelve years old. Yet the maintenance of motor car production at recent levels exceeding 6 million cars seems highly unlikely, even to the most optimistic in the motor companies themselves.

High Level of Plant Expenditure

Perhaps the most spectacular development in the post-war years has been in the level of plant and equipment expenditures. Averaging about $6 billion per year for the eight years prior to 1946, American business has been investing in new production facilities and in the replacement of old, an average of some $23 billion a year since the war. With increasing frequency, one hears today of surplus capacity in this or that industry.

Surveys of business firms indicate that business men themselves expect to invest almost as much next year as the record totals of this year. A decline of perhaps 5-10% is now anticipated. One could have more confidence in these expectations, however, if there were greater evidence of a movement of current production into consumption. Instead, the current rate of consumption appears to be little or no greater than a year ago, and much of current production has been going into business inventories. Today these are some $6 billion more than they were a year ago. The rate of inventory accumulation has tended to diminish from the extremely high annual rate of the second quarter, but it is nevertheless continuing to build. The logic of the situation suggests that either retail sales must very shortly take a large jump, or production rates will decline. Momentum may keep the rate of plant and equipment expenditures high for awhile, even when current production is falling, but momentum alone is not a sustaining force that can be relied upon too long.

There are other adjustments in the economy, some of which could serve to offset and others to amplify the concurrence of probable decline in these four important segments of the civilian economy. By and large, however, it is unlikely that they will exercise a dominant influence. It thus appears that we shall see more pronounced evidence of a decline in the employment, production, retail trade and price series in the months ahead. That is the direction of change that seems most probable at this time, barring new and unexpected developments in the international situation that would cause a substantial revision in the defense activities of the Federal Government.

How far will the decline go, and how long will it last? Again the question cannot be answered definitively. There are several reasons, however, why it should not go down very far by past standards, even though it may last somewhat longer than previous moderate declines have lasted.

The depth of a business contraction is at least in part related to the extent to which various parts of the economy mutually stimulate each other. For example, unless the chain is broken at some point, a decline in consumers' demand leading to a decline in prices and in turn, production, would in due course reduce wage incomes, and complete the circle of a further decline in demand. In times past, the credit mechanism of the nation has tended to amplify this type of chain reaction. That is because the supply of the nation's effective purchasing power in the form of demand deposits has contracted with the earning assets of member banks as business loans have been called for payment. This was very much the situation in the deep and prolonged depression beginning in 1929. Even though we have now had one of the longest periods of high business activity, in the nation's history, it does not seem probable that a similar chain reaction is now in prospect. There are a number of structural changes already in place in the economy that should prevent it.

Government Outlays

The very size of government outlays is itself one of those structural changes. Federal, state, and municipal governments are now taking and spending about one fourth of the total national product, whereas twenty-five years ago they took and spent less than 10%. This means that a quarter of the income flow of the nation is now relatively stabilized and independent of business activity whether it is expanding or contracting.

The chain reaction of contraction is further broken by the partial stabilization of personal incomes through support prices for agricultural products, and by

wage rates protected by contracts or minimum wage laws. Even in the event of expanding unemployment, arrangements for compensation have been developed through Federal and state machinery. These developments should help insure the maintenance of consumer purchasing on a reasonably even keel, even though the seeds of contraction might germinate in other parts of the economy.

The nature of the national tax take is still another shock absorber of business contraction. About four-fifths of all taxes collected by the Federal Government, including social security taxes, are direct taxes on incomes of individulas and corporations. The base on which taxes are collected thus automatically declines when business begins to decline. Political commitments to spend, however, usually decline little or not at all. A contraction in business would probably compel the Administration to forego at least for the time-being, its ambition to balance the budget. Whether it wished it or not, the government would be compelled to spend more money than it would receive, and a compensating influence is automatically provided to offset the contraction of private spending.

One estimate has been made that with a decline of only about 10% in the Federal Reserve Index of Industrial Production, the existing tax schedules, after allowing for the programed Jan. 1 reductions, would return something like $60 billion in the fiscal year 1954-1955. Federal expenditures, are currently running around $72-73 billion. Thus a deficit in excess of $10 billion is possible on the basis of present taxes and a mild recession during the fiscal year after the present one. That could be true even though no further tax reductions occur after Jan. 1, and even though there is no increase of expenditures for public works or other depression resisting activities.

Better Business Statistics

Another feature of the present economy often overlooked is that in the past quarter century business statistics have become much more comprehensive and promptly available. Businessmen have learned far more about their use. It cannot be proved, but there are now probably fewer serious miscalculations embedded in past business decisions requiring drastic adjustment than at previous times in the nation's history. That is not to say that the business community has become so wise in the use of its better information that mistakes are not made. In retrospect, it may appear that the maintenance of the high level of production and of capital formation in many industries throughout 1953 has been a mistake. But the fact remains that the facilities for more sensitive appraisal of the developing business situation are now available, and this could and should mean that forthcoming corrections of past mistakes may be less devastating to general business health.

The modifications in our monetary system that have occurred over the past quarter century provide still another fundamental structural change. When contraction hit the nation in the late '20s and early '30s, the money and banking system added fuel to the fire. The demand deposits liabilities of banks, which serve as the largest part of the nation's purchasing power, were then supported to a considerable extent by short-dated commercial and security loans. As the future profitability of business borrowers became increasingly questionable, and as depositors' withdrawals mounted, banks naturally called these loans for payment in their attempt to maintain their own solvency. The effect upon the supply of demand deposit money was disastrous.

No longer do we have this powerful stimulant to the chain reaction of contraction. In the first place, depositors are not worried and are unlikely to become worried, since their deposits are insured through the Federal Deposit Insurance Corporation. But even more important, demand deposits are now supported more by long-dated or term loans to business, and by both long and short-dated government debt. There is far less possibility of a deflationary chain reaction of loan calling and deposit contraction now than 25 years ago.

Supports Are Available

The important thing about these several structural supports is that they are already available. No new legislative or administrative action need be taken to make them operative. They are in place, ready to do their job of cushioning business contraction by cutting across and stopping what in times past may have developed into a cumulative recession.

There are several additional supports available to the Federal Government if those already in place should prove to be inadequate. It is hoped that they will not be needed, but if they should be, the return to an excessively easy money policy, the development of a large public works program, and the flexibility that may be found in the defense outlays all stand as potential weapons with which to counteract the decline.

A quick resort to these reserved or secondary devices at this time would be most unfortunate, however. In essence, it woud be an acknowledgment that we as a people have become so adjusted to inflation as a way of life that we politically require peak boom conditions even at the cost of depreciating dollars and all that that implies. It would mean that we are unwilling to demonstrate the validity or weaknesses of the structural supports that have been embedded in the economy as the result of past years of national debate, and indeed struggle. But most importantly, a resort to these secondary devices at this time would cut across the limited attempts that have been in recent years to approach a reasonable degree of balance in the economic relations of the Western world.

A return to easy money and deliberately expanded deficits should not be undertaken except as a last resort; and then only with the knowledge that the inflationary consequences would ultimately result in nationalistic measures incompatible with unhampered economic relations among friendly nations. The heavy burdens on economic comity of nationalistic full employment policies have never been fully recognized. The United States is today the most influential factor in the world economy and our responsibility cannot be discharged simply by largess. We must lead in the search for more enduring solutions to the Western world's economic relations, and a return at this time to a basically inflationary national program is the antithesis of reaching that goal.

Moreover, deliberate policies of easy money and expanded deficits do not appear to be needed at present unless we are irrevocably committed to continuous and all-out prosperity, regardless of the cost. With an arsenal of existing weapons already available to cushion recession, it is simply not plausible to expect the present situation to develop into a disastrous business contraction. We should recognize, however, that these existing weapons are all basically defensive in nature, and that they are unlikely to prevent some contraction from occurring. Nor is it likely that these several devices can be counted on to contribute positively to the ultimate recovery which, because of the long prosperity we have enjoyed, could be discouragingly slow in arriving.

Ultimately, replenishment of the needs of consumers, of business, and of the continuing defense program can be counted upon to restore the forward march of business activity. Large population increases and heavy accumulations of liquid and other savings, together with the strong financial positions of business firms, assure that eventuality. The longer-term future is bright if we do not spoil it with policies of expediency arising out of present fears.

Alternative courses are available to us. One is to try, by means of frankly inflationary devices, to return promptly to peak boom conditions. The consequences of that course would seem to be a further depreciating dollar, an ultimate resumption of direct economic controls, and a forfeiting of the opportunity to achieve economic cohesiveness among the nations of the Western world. If, on the other hand, we can set aside the fears of disastrous business contraction and resolve to adapt to a period of adjustment which, from present indications, should not be too painful even though it might be prolonged, we may find that good economics could prove to be the best politics in the long run. Only by moderation and restraint are we likely to achieve in the course of time a new basis for a strong and expanding national economy, and a Western world of nations that is economically as well as militarily and politically cohesive.

1st Report on German Dollar Bond Regis.

The Validation Board for German Dollar Bonds reports that as of the close of business on Oct. 16, 1953, its General Depositary, The National City Bank of New York, reported receipt of registrations totaling $18,934,100 face value of German Dollar Bonds, and its Special Depositary, for Dawes, Young and Prussian State issues, J. P. Morgan & Co. Incorporated, reported receipt of registrations in the amount of $30,644,300.

Thus, after the first seven weeks of its operations, the Board has received a total of $49,578,400 face amount of German Dollar Bonds registered for validation.

An analysis of the bonds registered during the first four weeks of its operations when total registrations stood at $30,527,300 face value shows very wide distribution of these bonds. Registrations have been received from every state in the Union, from the District of Columbia and from Alaska and Hawaii, and from over 20 foreign countries. The states with the heaviest registrations after New York are in order; Pennsylvania, Illinois, California, Ohio, New Jersey, Missouri, Massachusetts. The foreign countries with the largest registrations are Great Britain, France and Switzerland. The foreign registrations are quite small in relation to total registrations and it is anticipated they will increase in the future.

The relatively small volume upon which this analysis has been based serves, however, only as a preliminary indication of this distribution. It will be noted, for example, that almost a half of the bonds registered during this first four-week period came from registrants in New York State. Indications of present trend of registrations, the Board said, show that this very heavy percentage in New York will probably be reduced when its next report is made. The Board plans another analysis of registrations after the first three months of operation.

The following tabulation shows the face value of Dawes, Young, and Prussian State issues, and all other issues grouped together. The total registered with J. P. Morgan & Co. Incorporated, through Sept. 25 was $18,374,300 submitted under 2,805 separate Registration Forms, indicating an average of $6,550 in face value per Registration Form. The corporate, municipal and state bonds, a total of 88 individual issues for which The National City Bank of New York is General Depositary, show a much smaller amount per registration with the Board. In other words, a total of $12,153,000 face value was registered under 5,331 individual registrations or roughly $2,200 per registration. By far, the largest number of bonds registered are received in thousand dollar denominations and it may, therefore, be said with reasonable accuracy that the holdings of Dawes, Young and Prussian State bonds averages 6½ bonds per individual and that the holdings of the other German Dollar Bonds, being the corporates, the municipals and the state issues are held in a ratio of slightly over two bonds per individual.

DISTRIBUTION OF GERMAN DOLLAR BONDS

Registered with Validation Board, 30 Broad Street, New York City, during first four weeks of its operation, Sept. 1 through Sept. 25, 1953

LOCATION	*Dawes	*Young	*Prussian State	†All Other
Alabama	2,000	5,000	------	25,000
Arizona	79,300	3,000	------	2,500
Arkansas	1,000	2,000	------	13,100
California	197,300	1,120,500	183,000	244,800
Colorado	15,000	35,200	3,000	55,000
Connecticut	203,900	208,500	9,000	306,300
Delaware	7,000	5,000	------	10,000
Florida	223,500	133,000	------	97,600
Georgia	40,000	76,000	3,000	103,500
Idaho	1,000	1,000	------	------
Illinois	285,900	960,800	28,000	771,000
Indiana	7,000	18,500	6,000	31,900
Iowa	64,000	74,000	3,000	73,400
Kansas	58,100	84,000	------	16,500
Kentucky	75,300	41,000	1,000	33,300
Louisiana	27,000	18,000	------	53,800
Maine	1,000	61,300	5,000	73,700
Maryland	56,000	142,600	27,000	348,600
Massachusetts	119,200	360,700	15,000	360,400
Michigan	31,500	260,500	14,000	142,700
Minnesota	102,600	244,300	21,000	109,700
Mississippi	16,500	14,500	3,000	36,600
Missouri	133,000	421,200	9,000	590,700
Montana	7,500	29,200	------	16,700
Nebraska	28,500	104,000	15,000	368,800
Nevada	------	------	------	3,000
New Hampshire	15,500	15,000	5,000	11,300
New Jersey	300,300	374,200	51,000	527,600
New Mexico	------	------	------	4,000
New York	5,361,500	5,248,500	175,000	5,073,700
North Carolina	3,000	6,000	------	11,400
North Dakota	9,000	15,000	------	1,500
Ohio	476,000	664,600	59,000	222,800
Oklahoma	4,000	6,000	21,000	69,400
Oregon	48,500	125,000	------	82,200
Pennsylvania	414,200	1,002,000	64,000	658,300
Rhode Island	19,500	28,000	2,000	53,400
South Carolina	------	9,500	1,000	14,100
South Dakota	1,500	13,100	------	4,200
Tennessee	3,000	30,500	12,000	38,500
Texas	17,600	64,000	5,000	216,200
Utah	------	------	------	6,700
Vermont	27,100	26,000	1,000	31,000
Virginia	3,800	127,100	4,000	45,300
Washington	22,500	28,000	2,000	46,100
West Virginia	16,000	2,000	2,000	7,000
Wisconsin	100,800	189,000	9,000	191,200
Wyoming	------	1,000	------	4,000
Alaska	------	------	------	500
Hawaii	------	20,000	------	------
Washington, D. C. and other U.S. territories	46,000	57,500	------	131,300
Canada	272,600	186,000	5,000	42,400
Cuba	2,000	98,000	100,000	5,000
Mexico	------	1,000	------	9,100
All Central American Countries	------	------	------	1,000
Argentina	------	155,000	------	6,400
Brazil	------	1,000	4,000	25,000
Venezuela	4,000	------	------	6,000
All other So. American Countries	67,500	9,000	------	94,000
Belgium & Luxemburg	26,000	35,000	------	18,500
Denmark & Iceland	------	------	------	8,000
France	------	289,000	30,000	61,100
Germany	------	------	------	7,400
Great Britain & Northern Ireland, Eire	21,500	72,000	------	253,500
Italy	4,000	------	------	2,500
Netherlands	15,000	------	2,000	17,800
Norway & Finland	------	4,500	6,000	900
Portugal	------	------	------	5,500
Rumania	------	------	------	1,000
Spain	6,500	------	------	14,000
Switzerland	5,500	59,000	------	223,300
Union of South Africa	73,000	------	------	------
All other African Countries	------	------	------	7,000
Israel	------	------	------	300
Iran, Iraq, Saudi Arabia, Lebanon, Yemen	------	------	------	2,000
Total	9,170,500	13,385,300	1,009,000	12,153,000

*Based on five-week period. †Based on four-week period.

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Continued from first page

As We See It

of normal incentives added to the horror of the situation widely existing.

Seven Years Ago

But that was seven years ago. It is doubtful if history records a more rapid recovery than that which has taken place in a number of these countries. It has few parallels for what has occurred in any of them. This is not the place to argue about the degree in which our aid has been responsible for these near miracles. Doubtless it had its part, but it is to be observed that recovery has been the most marked in countries like Germany, where the people realizing that they could hardly succeed in special pleas for aid from us rolled up their sleeves and really went to work. It has lagged in some others where physical damage was relatively limited, and in France where war settlements (if they are settlements) were highly favorable.

But, however all these things may be, the point now is that the time has come for these peoples—all of them—to stand on their own feet. It is true that the so-called balance of payments position of most of these countries has not kept pace with the improvement in their production and in their production capacity, but the fact is that with few exceptions all the countries into which we have been pouring funds and the products of our labor gratis now show a favorable balance on what is known as current account—that is to say exports of goods and services balanced imports of goods and services for which payment is required.

Turning to our own position we find that we are now really in the red in our international dealings on current account. That is to say we are importing more goods and services than we pay for with exports of goods and services. We have been paying the difference in part with exports of gold, in part with deposits in our banks and in part with obligations of the Federal Government. Yet despite all this we have been giving away billions of dollars worth of goods and services in addition to other billions of military aid. It will be said, indeed it is being said in some quarters, that foreign peoples have been content with their lot—only by reason of the fact that so much of what they get from outside is given to them.

No Basis for Such Demands

We suspect that there is much truth in this statement, yet lack of contentment with the product of their own handiwork can scarcely be regarded as warrant for demand that other peoples in other parts of the world do with something less than the product of their handiwork. Such an argument might have held certain validity when conditions such as those found at the end of the war existed; it is difficult to see how it can hold now. If the peoples of Europe and of Japan are not now able and willing to provide for themselves, the only conclusion that seems to us to hold is that they want better bread than can be made of wheat (which is a futile ambition), or else that they are not willing to do what is necessary to make their own living.

Obviously, there must be some sort of limit somewhere to our generosity. We can not support a large part of the other half of the world indefinitely, and ought not to try. If other peoples can not or will not now rely upon themselves for their own economic requirements, we might about as well write them off as worthless and hopeless. We are well aware that these are harsh words. They are certainly out of harmony with most that is being said today. Yet we venture to utter them. We add—though we should hope it really unnecessary—that we do not believe that the recipients of our generosity have reached such a stage. They can, and they will if forced to do so, make their own living. They—or many of them at least—have not been playing the game. They try our patience sorely at times with their whining, and with their thinly veiled threats of going to the dogs, but, for our part, we should be quite willing to "call their bluff."

We suspect that the powers that be would be much more ready to take the advice of the Tafts, the Georges and the others on this matter were it not for the foolish notion that we can prevent the development of adverse business conditions by waste, extravagance, and the squandering of our energies and resources. High officials of late have been saying, according to press accounts, that large government spending is helping to sustain business volume at the present time, and there are many who may well be deterred from lightening the burden of public expenditures by the thought that action of this sort might help bring on a recession. Such reasoning is one of the products of New Deal and Fair Deal preaching, and is one of the reasons why it is so difficult to develop a national program which offers the best hope of getting back to a position of financial soundness in our national affairs generally. Such notions are utterly without validity and should not stand for one moment in the way of sanity in our attitudes toward foreign nations and foreign peoples.

Continued from first page

Profit Is Not Without Honor

a purpose because of the effects of more than two generations of collectivist attacks, coming first from Europe and then from within the United States. These attacks have not been just on profits. The system of Private Capitalism symbolized by the word Profit has been their main target.

The principal leadership for the attacking forces in Europe was provided by the Fabian Socialists of Great Britain. Later Communism developed, but it could not have generated such power if the way had not been so skillfully prepared for it by socialist fellow-traveler activities over many preceding years.

I hope it will not bruise tender feelings if I hint that some assistance may have been given to such forces earlier in this century by important persons and institutions in this very part of North America.

But with respect to the word "profit" as a symbol, I remind you that its inherent and potential value and significance are no less because of its emaciated condition and its present standing in the minds of the countless millions who reply solely upon casually acquired ideas.

Despite the present position and all that has happened, profit is not without honor. It has a value and significance that will survive all hurricanes of passing semantics and every storm of popular prejudice. One reason for this is the fact that profit is a cardinal feature of the going-concern idea. And profit is not without honor from the standpoint of the going concern. There can be no going concern without the possibility of profit. There can be no advancing scale of living for the multitudes without general achievement of the going-concern status.

"Going Concern—the Cornerstone"

Our system of human activity and human relationships, sometimes identified as Private Capitalism, has the going concern as its cornerstone. It is the only system which promises reasonably stable evolutionary development for a society. There is no alternative. All so-called alternatives are merely devices of liquidation. Typhoons of propaganda, sweeping artful phrases before them, cannot conceal the fraudulent character of every form of collectivism. I mean Socialism, Communism, Fascism, and every shade or combination of each.

What we know as Private Capitalism represents the only going-concern idea for sustaining great populations that has yet evolved out of human experience. And in saying this, do not think that I believe it is finished or complete. Neither do I imply that it is perfect. But I do say that on balance it must commend itself to thoughtful minds as man's best promise for the framework of his existence.

And I do not imply that all of the leaders of Private Capitalism have been or are perfect. They have been human. They have mirrored their times. No, it is not profit that has been without honor. It has been some individuals and groups who have personified profit. They have drawn the favor or fury of effective opinion as it has played upon each era in our history.

Now what do I mean by a going concern? Although its meaning may seem obvious to an assemblage of this character, I should like to be sure that I reduce the chance for misunderstanding as far as possible.

In the case of an individual, a going concern may be said to be a person who keeps himself in economic equilibrium by holding his expenses within his income. That, of course, is the minimum going concern. The scope of the definition can be widened according to the standing of the individual in his community, but I shall not go into that tonight.

In the case of a corporation, the minimum going concern is one which operates without impairing its capital. Here again refinement and classification can differentiate various kinds and degrees of a going concern, but they will merely distinguish categories of existence or growth.

In the case of Government, the going-concern idea is seldom mentioned and probably is not very popular. But I am happy that attention can be called, in passing, to the fact that even in the area of Government, a great many of the thousands of units of Government in the United States of which the Federal Government is but one, are conforming to the going-concern idea.

In the case of an entire national economy, the application of the going-concern idea has not yet been satisfactorily worked out. I believe it presents a field of great promise for exploration by those who would seek to advance and stabilize the scale of living of the American people.

Of course, a going concern is not a concern in liquidation. I think that Socialism, Communism, Fascism, and all forms of collectivism are frauds because they are held forth as alternatives to Private Capitalism with the implication that they can be substitutes. They are alternatives only to the extent that liquidation is an alternative to a going concern.

A System by Which Value Is Added

The going-concern idea of Private Capitalism represents a system by which value is added, strength is accumulated, and gains are conserved. The alternatives are devices of liquidation because they represent methods by which value is reduced, weakness is engendered, and subtraction is effected.

It is from such a point of view that I turn to contemplate the Soviet tragedy. Death and travail have been inflicted upon hundreds of millions for decades because of a delusion. No matter what the rationalization of that delusion may be, it is the delusion that Communism (whatever it may be) can be an alternative to Private Capitalism as the economic foundation for the lives of millions. Gentlemen, there could be no greater monument to Private Capitalism than that colossal tragedy of subtraction and division which stains the pages of history wtih the blood of the Russian people.

Mr. Malenkov was quoted recently as concerned because various subdivisions of his empire are operating at a loss. I wonder whether he ever becomes philosophic enough to wonder whether the whole works is not operating at a loss! Does he ever think that gradually he may be sinking in a swamp of red ink and dragging the Russian people down with him?

The present-day significance of the war of isms, symbolized by the Soviet tragedy, comes down just to battles of subtraction and division against addition and multiplication. How long must we wait for a sufficient proportion of our leadership to realize that all growth is two-fold in character? It consists of expansion and cohesion. Probably the race between education and catastrophe, of which we are so often reminded, mainly involves a sufficiently widespread comprehension and application of this expansion-and-cohesion concept.

Thoughts such as these challenge every man of conscience who has an instinct for constructive pioneering leadership. We are all up against it. It is this: The true nature of the system underlying our existence is not sufficiently understood even by its leaders. Neither is there understanding of the fraudulent character of collectivism as an alternative to Private Capitalism. It is in this sense that the great American people have been victimized. They have been misled by those who have put forward substitutes that were fraudulent. Many of our most fundamental institutions have been undermined and seriously weakened as a result.

Only the fabulous accumulated resources and imponderables of America have kept the currents of liquidation from running their courses. There simply was too much arithmetic even for ignorance, cupidity, and fanaticism to dissipate in the time available. Certainly we have that much to be thankful for, but it only heightens the challenge. The hour is late. The infection has penetrated deeply. The necessary ideological antibiotics are not widely accepted nor are they in sufficient strength even when available.

Resist the Forces of Liquidation and Disintegration

Every person in a position of leadership within the American system is confronted by the problem of how to protect, preserve, and enlarge a going-concern economy. It involves conscious, constructive enterprising. It involves purposeful resistance to the downward gravitational pull of the forces of liquidation and disintegration. It involves the magnification and preference of addition and multiplication as against subtraction and division.

External pressures on business have forced up costs and therefore prices. Some believe that this is beginning to curtail demand. Not only do we face dangers of pricing our products and services out of the market, but at the same time the danger of finding ourselves so shackled, with respect to making adjustments, that a decline in demand can neither be stopped nor slowed down.

Already cynics are cropping up to taunt us by saying that all you learn from experience is that you learn nothing from experience.

In stark realism the problem which presses in on us from every hand is the rescue of what is left of a going-concern economy from the Frankenstein of an excessive and uncontrolled overhead.

We must ask ourselves whether the overhead burden of our entire economy is not so far out of proportion to production, distribution, and services as to threaten by

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ultimate liquidation the very pillars of the temple.

The mathematics of the going concern includes the mathematics of the regenerative processes. It also includes the mathematics of incentives and particularly all that registers the psychological impact of future prospects.

There are those who interpret what has taken place in this country in the past generation as the breaking out of the Frankenstein of fabulous expenditure from normal bounds and its expansion through governmental and political avenues without a semblance of restraint. The past generation is referred to as the first trillion-dollar era in history. A thousand billion dollars of expenditure by governments within the United States alone!

We have experienced not only unbridled pyramiding of non-productive overhead, but also invasion of the flexibility and impairment of the equilibrium of production by outside forces not subject to control by management. This has made the position more brittle. Because it is so hard in so many respects, the question arises as to the extent to which it can successfully withstand adverse pressures that reasonably may be expected. If the stability and vitality of economic units are not bolstered when conditions are favorable, they will not be safeguarded at all. We now know only too well that supposed remedies slapped on during the blindness of adversity and panic usually prove to be remedies that are worse than the disease.

So my principal suggestion tonight and the one thing I really came here to express and to stress above all else is that we must all address ourselves to the protection of a going-concern economy, an early increase in its resiliency, and the development of understanding with respect to it. By the same token we must confront the forces which have reduced its resiliency, and do all we can to readjust them in the light of reason rather than in the desperation of panic.

In turning toward a conclusion, we naturally come to the question of what each of us can do within his particular orbit on a day-to-day basis. When we do this we are again reminded of the race between education and catastrophe. Each of us has his own orbit of activity and influence. Each is able to affect opinion-forming forces. Do we do it? I am not talking about the general or indirect activities common among corporations. Most so-called personnel and industrial relations activities, which we all carry on in varying degrees, have a certain place and value. I refer to something more.

Additional and more effective means of crystallizing interest must be found and developed, whereby leaders and followers will understand that they are all in the same boat and must sink or swim together.

Efforts must be made on a larger scale to dissipate the thinking of persons who now believe in the delusions or misrepresentations of the fanatics who would substitute subtraction and division for addition and multiplication.

Five Fundamental Ideas

Such efforts must establish greater understanding and acceptance of at least five fundamental ideas, as follows:

(1) Enterprise is the basis of all well-being.

(2) The highest form of expression of enterprise is through the full going-concern economic unit.

(3) The scale of living of the American people depends upon maintenance of a substantial proportion of enterprise units on the basis of the best possible conception of the going-concern idea.

(4) The greatest single threat to the continued well-being of the people of the United States is the disproportionate expansion of overhead which has resulted from pyramiding political inflation in disregard of the limits of capacity of a going-concern economy. This now confronts us with an internal situation that is frozen and nailed down in so many ways as to make the economy exceedingly vulnerable to the pressures of adversity.

(5) The most important single means for the development of the necessary understanding as to the interdependence of leaders and followers and ways in which they may act jointly to preserve the American opportunity system is represented by the supervisory and working forces of business enterprises such as those with which you and I are associated.

Finally, I remind you of the story often told about the Chinese word for crisis. It is said to present a pictograph in two parts. One part signifies great danger; the other, great opportunity. It is with the faith and hope implicit in such a concept that we should look to the future.

Above all, every effort must be made to maintain the real income of the American people at the highest possible level that can be sustained. If this requires development and substitution of sound and durable measures for synthetic and temporary devices, leadership must be given to that end. Every responsible person owes it to himself, and the time in which he lives, to put forth the maximum effort to maintain and enlarge the income of the people, but to do so in ways that also strengthen and enlarge a going-concern position. Bear in mind, this will be difficult. Were it easy, it would not confront us as a challenge tonight. With an aggressive application of the cardinal virtues of faith, determination, courage and intelligence, exemplified by those sturdy souls who brought the good ship Mayflower to Plymouth Rock, we can yet protect our heritage and raise the level of its service for the benefit of the people of the United States.

Gentlemen of Massachusetts, we have no choice but to accept as inevitable that only night shall follow departure from Private Capitalism. Consistent with the laws of the universe, the only way to keep America going is to keep it growing under a system motivated by profit that is not without honor, save in Russia.

John H. Patton Joins H. O. Peet & Co.

(Special to THE FINANCIAL CHRONICLE)

OMAHA, NEB.—John H. Patton has become associated with H. O. Peet & Co., Farnam Building. Mr. Patton was formerly with Central Republic Company and Paine, Webber, Jackson & Curtis. In the past he was an officer of Burns, Potter & Co., Inc.

New York Stock Exch. Weekly Firm Changes

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

David C. Kuh will retire from partnership in Hooker & Fay Oct. 31.

Reginald W. Pressprich, Jr. will withdraw from partnership in Tucker, Anthony & Co., Oct. 31.

Harry Price will retire from Walters, Peck & Co., Oct. 29.

A. W. Morris Adds

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, Calif.—Lazare M. Kauffman has been added to the staff of A. W. Morris & Co., 9680 Santa Monica Boulevard, members of the New York and Los Angeles Stock Exchanges.

Public Utility Securities

By OWEN ELY

Central Vermont Public Service Corp.

Central Vermont Public Service Corp. is the largest electric utility in Vermont. It has been built up gradually through mergers, the latest acquisition being Public Electric Light Company with revenues of about $1,400,000, which was acquired in July, this year. In some quarters it has been thought possible that the company might acquire Green Mountain Power Corp., with revenues of nearly $5 million as compared with Central Vermont's $9 million, but nothing definite has materialized on this.

Central Vermont and its wholly-owned subsidiary, Connecticut Valley Electric Company, Inc. (which operates in New Hampshire) serves 62,500 customers in 147 communities in Vermont and 13 in New Hampshire. Larger cities include Bennington, Bradford, Brattleboro, Middlebury, Randolph, Rutland, Springfield, St. Albans, St. Johnsbury, and Windsor in Vermont, and Claremont in New Hampshire. The service area in Vermont, which includes a major portion of 8 of the state's 14 counties, has a population of some 194,000 or slightly over half of the state total.

The company's electric properties consist of five systems not now interconnected with each other, but four of which are interconnected with the facilities of New England Electric System. About 74% of the electricity required to meet customers' needs is purchased from New England Electric System and other utilities. Of the balance, about 95% was provided in 1952 by hydro units, and 5% by the unfinished gas turbine plant at Rutland. Next year the proportion of purchased power will be substantially reduced by full operation of the gas turbine, and by the newly-acquired generating capacity of the former Public Electric Light Company.

Vermont is well known as a scenic resort area, and natural resources include large deposits of the finest marble, granite and slate in the country, as well as asbestos, copper, iron and talc. The extensive forests abound in both hard and softwood timber, producing lumber, pulpwood and maple products which have made Vermont's name famous for quality. While Vermont is often thought of as a dairy-farm state, it is becoming more diversified. About one-quarter of the employed residents of Vermont are now engaged in manufacturing, about the average for the U. S. but below the level for all New England. Industrialization has grown faster in the state in recent years than in other sections of New England.

Following the close of the war the company not only reconstructed a lot of its distribution systems to keep pace with growing loads, but carried out a very large program of rural line construction which resulted in practically complete coverage for all of the rural areas in the territory. This job won for the company in 1943 the Thomas W. Martin Rural Electrification Award, presented by the Edison Electric Institute.

While Vermont is not considered a growth area, the company's plant on Aug. 31 was carried at over $37 million compared with $14 million at the end of 1942. However, $4 million of plant account had been eliminated in 1942 when the books were put on an original cost basis. During the decade the number of large power customers increased 175%, revenues more than doubled, and kwh. sales were up 68%. The company's largest customer, Goodyear Tire & Rubber, accounts for about 8% of all power revenues.

Relations with Vermont State Commission appear satisfactory. Five upward rate revisions were made in 1948-53, all but one becoming effective 30 days after filing, without hearings. In the one case where a hearing was ordered, a decision was reached within five months and a court appeal in about six months thereafter, the rate of return allowed being 5.65%.

As of Aug. 31, 1953 capitalization was 52% long-term debt, 17% preferred stock, and 31% common stock equity. The company expects to sell $1,500,000 mortgage bonds next year. In 1955 no financing of any kind will probably be necessary, unless the company decides to develop some hydro properties in the new St. Albans territory, in connection with plans for interconnecting St. Albans with the company's central system.

The common stock record has been somewhat irregular due to the catastrophic flood which hit the company's properties in Rutland in June, 1947, destroying one dam and severely damaging another. The company not only incurred considerable damage to its own properties, but also had to settle large claims for damage to hundreds of homes and business establishments. Additional stock was sold at 8¼, doubling the number of shares, in the refinancing program which followed. Dividend payments were resumed late in 1948, and the rate has been gradually raised to 84 cents. President Cree hopes to restore dividends to the $1.08 rate which prevailed before the flood. He feels confident that the rebuilt dams are stronger than ever and that there is no danger of any repetition of the 1947 trouble.

For the 12 months ended August, share earnings (based on average shares outstanding) were $1.05. Thus the stock, at the recent over-counter price around 15, is selling at about 14.3 times earnings. The 84-cent dividend affords a yield of 5.6%.

* * * * * * * * *

CORRECTION: In the article on New England Gas & Electric Association (in this column Oct. 22) it was estimated that the New Bedford oil-gas plant could produce gas at a holder cost of 53¢ per mcf, or about the same as the cost of natural gas. The statement should have been that oil-gas at New Bedford can be produced at about the cost of natural gas at Worcester from Northeastern Gas Transmission (53¢) PLUS the standby plant cost, the latter amounting to about 10¢, or a total of 63¢. At New Bedford production for the first seven months of 1953 averaged under 60¢, but the recent increase in the price of oil would add about 3¢ to that cost.

Missisippi Valley IBA Group Gets Slate

ST. LOUIS, Mo. — Joseph A. Glynn, Jr., Blewer, Heitner & Glynn, St. Louis, has been nominated for Chairman of the Mississippi Valley Group of the Investment Bankers Association. He will succeed W. Guy Redman, A. G. Edwards & Sons. Others nominated were A. A. Christophel, Reinholdt & Gardner, Vice-Chairman, and George A. Newton, G. H. Walker & Co., Secretary and Treasurer.

Chapin S. Newhard, Newhard, Cook & Co., has been named to the Board of Governors of the IBA, succeeding Benjamin F. Frick, Jr., Stix & Co.

The officers of the Mississippi Valley Group, Mr. Newhard, Garfield J. Taussig, the other IBA Governor from St. Louis, J. H. Fotheringham, Kerwin, Fotheringham & Co., Edward J. Costigan, Jr., Edward D. Jones & Co., E. William Darmstatter, Stifel, Nicolaus & Company, Incorporated, Kenneth H. Bitting, Merrill Lynch, Pierce, Fenner & Beane, and Dabbs Sullivan, Dabbs Sullivan Company, Little Rock, will compose the Executive Committee.

Jack M. Bass, Jr. With Jack M. Bass & Co.

NASHVILLE, Tenn. — Jack M. Bass, Jr. has joined the staff of Jack M. Bass & Co., 315 Fourth Avenue, North. Mr. Bass, a graduate of the University of Virginia, has been with the Military Liaison Section of the U. S. State Department for several years.

Join Sills, Fairman

CHICAGO, Ill.—Sills, Fairman & Harris, Incorporated, 209 South La Salle Street, members of the Midwest Stock Exchange, investment banking firm, has announced that the following registered representatives have joined the company: James Robert Cleaver, Garden City, Kansas, and Philip S. Adams, Chicago.

Forming Greenwald & Co.

As of Oct. 29 Greenwald & Co., members of the New York Stock Exchange, will be formed with offices at 61 Broadway, New York City. Partners are Alfred Greenwald, Exchange member, general partner, and Dorothy B. Maltz, limited partner. Mr. Greenwald was formerly a partner in Greiner & Co.

Draper, Sears Adds

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BOSTON, Mass.—Edith F. Wood has been added to the staff of Draper, Sears & Co., 53 State Street, members of the New York and Boston Stock Exchanges.

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PALM BEACH, Fla.—Sylvia B. Sands is now with Bache & Co., 271 South County Road.

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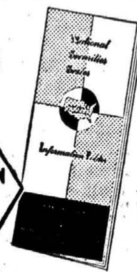

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By ROBERT R. RICH

Technicians Find Practical Use of Electronic Devices Premature

Some down-to-earth aspects of color television, transistors and other electronic developments emerged from the semi-annual round table discussion between the research staff of Hugh W. Long & Company and the firm's technical consultants, men who are scientists or head scientific enterprises.

Real volume of color TV sets at retail prices lower than $700 is not expected before 1956. At present 30 to 34 controls are required in color receivers, and only 12-in. and 14-in. tubes are available. Basic theories of high frequency electrical impulses are being re-examined. The "as far as the horizon" theory is now obsolete. New findings suggest that the present setup of relay amplifying stations may not be necessary, and that trans-ocean TV broadcasting is possible.

Transistors have been oversold. Unless some "magic" is found it will take five years before they are sufficiently dependable for adoption in military equipment. The advantages of transistors — low power consumption, compactness and long life—will bring about their reasonably wide use in 1954, even though far from perfected.

Government purchases of electronic equipment will continue very high for a decade. When transistors become fool-proof, most then existing military electronic equipment will have to be radically redesigned.

Other subjects touched on at the meeting included recent developments in automation (conversion of manufacturing plants to self-operation through electronic devices), metallurgy, petroleum, chemistry and drugs.

New England Fund Trustees Strengthen Conservative Position

The Trustees of New England Fund have maintained their cautious attitude toward the prospects for continuation of current high levels of earnings. The 88th Quarterly Report to shareholders, for the nine months to Sept. 30, 1953, revealed that the conservative position of the Fund has been further strengthened during 1953. Holdings of short-term bonds and notes (maturities under 5 years), and cash, accounted for 34% of total assets at the end of September, compared with 21% at the 1952 year-end; and the emphasis has been on less cyclical common stocks for the portfolio.

These conservative steps, begun some three years ago, have resulted in relatively steady value-per-share figures throughout the last year: $17.33 on September 30, 1953, compared with $18.13 a year ago before a 35c year-end payment from realized capital gains. They have also resulted in the realization of nearly $850,000 of net security profits in the last 3¾ years which are paid to the shareholders either in cash or in additional shares. The very large majority of shareholders have taken their payment in shares. The same procedure will be followed with the realized profits in 1953.

Total net assets of $6,325,418 and 364,951 shares outstanding compare with $6,023,270 of assets and 332,310 shares a year earlier.

3rd Quarter Portfolio Changes

Additions

2,500 shs. United Fruit
2,000 shs. American Viscose
7,000 shs. Wisconsoin Public Service

Eliminations

1,600 shs. Columbus & Southern Ohio Elec.
5,150 shs. Northern States Power (Minn.)
8,000 shs. Southern Co.
9,000 shs. Toledo Edison
1,500 shs. Consol. Edison $5 cum. pfd.

Holdings of International Paper and Montgomery Ward common stocks were increased by 1,000 shares and 500 shares, respectively.

OPEN-END REPORTS

SELECTED AMERICAN Shares, Inc., reports assets at Sept. 30, 1953 of $25,109,238 or $12.49 a share vs. $24,369,735 or $13.76 a share at Sept. 30, 1952.

Five largest investments by industry were oil 12.2% of assets, electric utility 10.5%, electric equipment and television 9.6%, chemical and drug 8.0%, and retail trade 6.3%. Common stocks accounted for 91.1% of assets. The balance was in U. S. Governments and cash.

Edward P. Rubin, President, said, in commenting on business conditions, "While it is reasonable to suppose this thus far mild recessionary trend may go further, it now seems certain that 1953 as a whole will establish a new high peacetime record for business activity and gross national product. Earnings of many corporations will exceed those of 1952.

"In periods like this it is easy to lose sight of basic values and long-term probabilities as attention is drawn to temporary near term problems. The management —while importantly interested in the near term, too—is convinced that the dominating long-term forces in this economy are its healthy growth and risk of further inflationary developments, both of which emphasize the desirability of common stock investments.

"In the third quarter the company sharply reduced its holdings of railroad and steel stocks. Holdings of some of the more stable industries were increased. There was a moderate addition to cash and government securities. Substantial purchases were made in stocks of companies which appear to offer a combination of prospects for good business and relief from excess profits taxes next year."

BROAD STREET Investing Corporation increased net assets to $32,267,685. The Sept. 30 figure compares with $31,695,720 three months ago, $31,020,634 at the beginning of the year and $28,131,675 on Sept. 30, 1952.

Sales of new shares totalling $5,555,050 were made during the 9 months of 1953 and that after redemptions, new funds for the period amounted to $4,309,176.

The Sept. 30 net asset value per share of Broad Street Investing was $20.73 or 3.9% less than a year earlier, after adding back the distribution from realized gain on investments of 45 cents per share made in 1952.

There was no great change in the over-all emphasis on common stock investments during the past 3 months. However, bonds and preferred stocks were favored in purchases made with new funds received and common stock holdings were lowered as a percentage of net assets to 86.6% at the end of the quarter compared with 88.5% at the end of June. Public utility common stocks were increased and continued as the largest single industry group with 20.3% of net assets contrasted with 18.3% a year earlier. Oil stocks were the second largest, representing 17.0% of net assets.

New common stock commitments were 3,800 Brooklyn Union Gas, 5,000 Louisiana Land & Exploration and 12,000 Pfizer.

American Chicle, Arizona Public Service, Central Illinois Light, Cluett, Peabody, and Shamrock Oil & Gas were among the holdings that were increased during the quarter.

The sale of 18,000 Merck and 2,000 Skelly Oil eliminated these issues from the portfolio.

Reductions were made in the holdings of Detroit Steel Products, Moore-McCormack Lines, Sinclair Oil, and U. S. Steel.

M.I.T. Sales $6 Million; Buys $13 Million

Massachusetts Investors Trust reporting for the three months ended Sept. 30, 1953, states that purchases of the Trust's shares by investors in this period have exceeded shares redeemed by $6,-478,729. In this same quarter, the Trust bought $13,334,730 of investments for portfolio compared with $8,127,160 in sales of portfolio holdings excluding short-term notes.

The report also announces that to simplify future administration any net capital gains made from the sale of securities will be distributed after the end of the year, rather than in the same calendar year as realized, the previous procedure.

As of Sept. 30, the Trust reports a net asset value per share of $18.09. In the past 12 months from this date, there were gains of 16,416 in number of shareholders and 2,025,657 in shares outstanding, for totals of 110,925 shareholders and 26,346,767 shares outstanding, record figures in the Trust's 29-year history.

Major portfolio changes for the three months ended Sept. 30, 1953 were as follows:

PURCHASES

Company—	Bought
Illinois Power Co.	10,000
American Smelt. & Refining Co.	10,000
Crown Zellerbach Co.	11,012
Douglas Aircraft Co.	10,000
General Motors Corp.	10,500
Industrial Rayon Corp.	10,000
Libbey-Owens-Ford Glass	13,000
N. Y. State Electric & Gas	*15,000
North American Aviation	15,000
Pacific Gas & Electric Co.	*13,000
United Aircraft Corp.	20,000
United Gas Corp.	*19,716
General Motors Accept. Notes	$8,880,000

*Purchased partly through rights.

SALES

Company—	Sold
Chrysler Corp.	10,000
Con. Ill. Nat. Bank Trust, Chi.	24,500
Guaranty Trust, New York	17,500
Public Service Electric & Gas	41,100
Weyerhaeuser Timber	10,000
General Motors Accept. Notes	$9,560,000

I.D.S. Nine Months' Earnings Increase From $8.71 to $9.57

Net earnings of Investors Diversified Services, Inc., were approximately $2,782,677, or $9.57 per share in the nine months ending Sept. 30, 1953, compared with $2,531,224, or $8.71 per share in the corresponding period of 1952, the company reports.

Undistributed earnings of IDS wholly-owned subsidiaries were $2,378,040, or $8.18 per share of IDS stock, against $1,755,889, or $6.04 per share, making the total increase in surplus $5,160,717, equal to $17.75 per share in the three quarters of 1953, against $4,287,113, or $14.75 per share in the like period a year ago, the company stated.

Mass. Life Fund Gains in Year

Massachusetts Life Fund, in its report for the three months ended Sept. 30, 1953, notes that the number of its shares outstanding increased to 561,805, compared with 536,584 at the same time a year ago. Total net assets in the same quarter increased to $15,468,270, compared with $15,368,030 a year ago.

The net asset value per share at the end of the three months period was $27.53 after a dividend of 25 cents per share, the same dividend as was paid in the corresponding period last year.

Common stocks held by the fund as of Sept. 30, 1953, totaled 54% of the fund's assets, while 37% was in cash and bonds and 9% in preferred stocks. Among common stocks, public utilities shares represented 17% of the entire Fund, industrials were 30% and bank and insurance stocks 6%.

Major portfolio changes for the three months period ended Sept. 30, 1953 include the purchase of 15,000 shares of New England Electric System and the sale of 3,500 shares of Texas Utilities Company.

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INVESTORS STOCK FUND

Investors STOCK FUND

Notice of 33rd Consecutive Quarterly Dividend

On October 13, 1953, the Directors of Investors Stock Fund, Inc., declared a regular dividend of eighteen and one-half cents per share derived from net dividend income, payable October 29, 1953, to shareholders of record October 16.

At the same meeting, the Directors declared a special dividend of twenty-six and one-half cents per share derived from security profits realized during the past fiscal year, also payable October 29, 1953, to shareholders of record October 16.

H. K. Bradford, President

Investors STOCK FUND

Minneapolis, Minnesota

DELAWARE FUND recorded an $875,000 increase in net assets in the 12 months ended Sept. 30, 1953. Total net assets on that date amounted to $14,753,000, equal to $15.01 a share on the 983,500 shares outstanding among 6,650 shareholders, compared with total net assets of $13,878,000 on Sept. 30, 1952, or $16.45 a share on the 844,000 shares then outstanding among 5,785 shareholders.

The Fund listed 89% of its assets in commons; 9% in preferreds; and 2% in cash and receivables on Sept. 30, last. During the September quarter, Delaware added to its holdings in the air-line, railroad, utility and electronic industries and reduced its position in the aircraft manufacturing field.

Eaton & Howard Report Shareholder Gains

Eaton & Howard Balanced Fund 86th Quarterly Report for the period ending Sept. 30 shows net assets of $95,860,517 equal to $30.36 per share. On that date the Fund had 20,176 shareholders, an increase of 2,109 since the beginning of the year, and 3,157,946 shares outstanding, an increase of 251,016 — both representing new highs in the history of the Fund.

Fifty-eight percent of the Fund was invested in common stocks at the end of Sept., 15% was in preferred stocks, 17% in corporate bonds and 10% was held in cash, U. S. Government bonds and short-term notes.

The larger common stock holdings by industries were oil (11.3%), power and light (10.5%), banking (5.1%), insurance (4.6%), and natural gas (3.7%). The following table shows securities added to and eliminated from the Fund's portfolio during the third quarter of 1953:

Additions

U. S. Treasury Ctfs. of Indebtedness 2½s, 3/22/54.
U. S. Treasury Notes 2⅞s, 3/15/57.
Industrial Accept. Corp., Ltd. Notes 3⅜s, 2/22/54.
Commercial Credit Co. Notes, 4/9/54.
Commercial Investment Trust Notes, 4/15/54, 5/7/54.
General Motors Acceptance Co. 3⅞s, 1961.
El Paso Natural Gas Co., 5.65% pfd.
Caterpillar Tractor Company.
El Paso Natural Gas Co.
Goodyear Tire & Rubber Company.
Standard Oil Company (Kentucky).

Eliminations

U. S. Treasury Bonds 2s, 9/15/53.
Commercial Credit Notes, 7/6/53, 7/13/53.
Commercial Investment Trust, Notes 8/10/53.
Denver & Rio Grande Western, Inc. 4½s, 2018.
Gulf, Mobile & Ohio "B", Inc. 4s, 2044.
Mission Corp. 3¾s, 1966.
St. Louis-San Francisco 1st "A" 4s, 1997.
El Paso Natural Gas Co. $4.40 conv. 2d pfd.
Curtis Publishing Co., $3-$4 prior pfd.
Medusa Portland Cement Co.
National Fire Insurance Co.
Public Service Co. of Indiana.
Virginia Electric & Power Co.
St. Louis-San Francisco "A" 4½s, 2022.
Consolidated Edison Co. of N. Y.

Eaton & Howard Stock Fund 88th Quarterly Report for the period ending Sept. 30 shows net assets of $18,660,074 equal to $22.51 per share. On that date the Fund had 5,138 shareholders, an increase of 1,015 since the beginning of the year, and 829,034 shares outstanding, an increase of 135,214 — both representing new highs in the history of the Fund.

Ninety-four percent of the Fund was invested in common stocks at the end of Sept.; 6% was in cash and short-term notes.

The larger common stock holdings by industries were oil (12.1%), power and light (10.1%), insurance (9.4%), banking (7.0%) and chemicals (6.9%). The following table shows securities added to and eliminated from the portfolio during the third quarter of 1953:

Additions

Caterpillar Tractor Co.
Florida Power Corp.
Oklahoma Gas & Electric Co.
Southern California Edison Co.
Commercial Investment Trust Notes, Dec. 23, 1953.

Eliminations

Southern Natural Gas Co.
U. S. Treasury Bills, Sept. 18, 1953.

Continued from page 5

The State of Trade and Industry

mortality in September. More businesses succumbed than a year ago in all industry and trade groups, except service.

Failures exceeded the 1952 level in all regions except the Middle Atlantic; in that area, the decline from a year ago was concentrated wholly in New York.

Steel Output Scheduled to Drop to 93.7% of Capacity This Week

Steel production is riding high, says "Steel," the weekly magazine of metalworking. After holding steady at a lofty 95% of capacity rate all this month, it edged upto 95.5% in the week ended Oct. 24. And there is no reason to expect the rate to be below 95% in the one remaining week of the month, it states.

While the current 95% rate might at first glance appear low when compared with the 106.6% average for October of last year, a rate of 95% today yields almost as much steel as the 106.6% rate of last October, it continues. The capacity on which this year's operating rates are computed is 8% higher than that of last year. Output of steel for ingots and castings in October last year was 9,808,084 net tons. This year the October production should be approximately 9,500,000 net tons, it further states.

Such an output would be in sharp contrast to what some people expected. Earlier this year you could find people who thought steel output would be down to 90% or less of capacity in the fourth quarter. One month of this quarter is nearly past and the rate this month hasn't been below 95%, this trade paper observes.

Not only is steel production moving along at a high rate but demand for steel at the mill level is firming up a little after easing during the summer. In numerous cases, the inventory reduction that steel consumers launched into has gone about as far as they can let it go in view of the good level of business that continues, reports "Steel."

The biggest consumer of steel—the automobile industry—is seeing its output reviving after a summer lull. Its production now exceeds that of a year ago. A producer of household refrigerators reports its sales are running 82% ahead of last year and sees a bright outlook for the rest of the year, according to this trade journal.

Prices of scrap, one of the principal raw materials used by steel makers, continue to edge upward. Many analysts, "Steel" states, thought scrap prices had overcorrected themselves downward in response to the decline in steel demand.

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 93.7% of capacity for the week beginning Oct. 26, 1953, equivalent to 2,112,000 tons of ingots and steel for castings as against 95.0% (revised), or 2,142,000 tons a week ago. For the like week a month ago the rate was 95.3% and production 2,149,000 tons. A year ago the weekly production was placed at 2,229,000 tons and the operating rate was 107.3% of capacity. The percentage figures for the current year are based upon the capacity as of Jan. 1, 1953, the rate this year being higher than last year.

Car Loadings Rise 2.3% Above Week Ago

Loadings of revenue freight for the week ended Oct. 17, 1953, increased 18,469 cars, or 2.3% above the preceding week, according to the Association of American Railroads.

Loadings totaled 822,539 cars, a decrease of 15,869 cars, or 1.9% below the corresponding 1952 week, and a decrease of 64,109 cars, or 7.2% below the corresponding 1951 week.

Electric Output Reverses Downward Course the Past Week

The amount of electric energy distributed by the electric light and power industry for the week ended Saturday, Oct. 24, 1953, was estimated at 8,306,426,000 kwh., according to the Edison Electric Institute.

The current figure represents an increase of 41,626,000 kwh. above that of the preceding week, and an increase of 610,183,000 kwh., or 7.9%, over the comparable 1952 week and 1,072,498,000 kwh. over the like week in 1951.

U. S. Truck Output Drops in Latest Week

Automobile output for the latest week was slightly above the previous week, according to "Ward's Automotive Reports." Truck output for the same period, however, was lower.

The industry turned out 123,331 cars last week, compared with 122,325 in the previous week. A year ago the weekly production was 106,712.

United States truck production last week totaled 18,480 compared with 23,272 the previous week. A year ago truck output was 29,218 units.

Canadian companies made 6,616 cars last week, compared with 5,400 in the previous week and 6,402 in the like 1952 week. Truck production amounted to 914 units last week, against 1,646 the week before and 2,416 in the year earlier period.

Business Failures Rise Moderately

Commercial and industrial failures rose to 185 in the week ended Oct. 22 from 169 in the preceding week, Dun & Bradstreet, Inc., reports. This increase lifted casualties well above the 154 and 155 which occurred in comparable weeks of 1952 and 1951. Continuing below the prewar level, however, failures were down 38% from the 1939 toll of 300.

Casualties with liabilities of $5,000 or more increased to 158 from 138 a week ago and exceeded their 1952 total of 113. In contrast, a decline occurred among small failures, those involving liabilities under $5,000; they dipped to 27 from 31 and were considerably below the 41 of this size recorded last year. Fifteen businesses succumbed with liabilities in excess of $100,000, compared with 23 in the previous week.

Wholesale Food Price Index Turns Moderately Downward

The wholesale food price index, compiled by Dun & Bradstreet, Inc., registered a moderate decline last week, from $6.57 on Oct. 13 to $6.54 on Oct 20. This was the lowest since mid-June when it stood at $6.51. The current figure compares with $6.34 on the corresponding date a year ago, or a rise of 3.2%.

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 Moves Mildly Upward

The trend in the general price level was mildly upward the past week. The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., finished at 271.06 on Oct. 20, comparing with 270.71 a week earlier. At this time a year ago the index stood at 287.43.

Grain markets strengthened last week, reflecting buying stimulated by the belief that the Administration will provide continued high support levels for farm products.

Limited offerings of "free" wheat and a more active mill demand were additional supporting factors in that cereal which closed strong despite partial relief from drought by good rains in parts of the Southwest and lack of export demand. Oats and rye prices rallied to close moderately higher. Corn prices declined at most markets, reflecting heavy marketings of new crop corn.

This year's corn yield, based on Oct. 1 conditions, was estimated by the Crop Reporting Board at 3,196,000,000 bushels.

This was about 20,000,000 bushels less than the Sept. 1 forecast, and about 110,000,000 bushels below the actual 1952 harvest.

Domestic sales of all types of bakery flours remained on a restricted basis. Moderate to fair sized bookings of hard Winter wheat varieties were reported during the week but buyers as a rule showed a disposition to defer purchasing in the hope that prices will turn downward. Export flour trade continued in small volume. The coffee market displayed a tendency to stabilize at the lower levels established last week following the currency devaluation which took place in Brazil a week ago. Replacement roaster buying was fairly active at the new levels. Cocoa prices turned upward in more active trading, reflecting a broader manufacturing interest for spot stocks and continued firmness in the London market. Warehouse stocks of cocoa continued to decline, totalling 101,745 bags. This was down 14,296 bags from a week ago, and compared with 65,998 a year ago. Domestic and world sugar were somewhat easier in dull trading. The undertone in lard was firm and prices edged higher in sympathy with related markets. Chicago livestock markets were mostly steady.

Spot cotton prices moved slightly higher last week, the main supporting influences being the high level of CCC loan entries, the continued strong holding movement among farmers, and the proclamation by the Secretary of Agriculture of marketing quotas and acreage allotments for the 1954 cotton crop.

Reported sales in the ten spot markets declined moderately for the week and were considerably less than a year ago. Loan entries during the week ended Oct. 9 reached 411,000 bales, the second largest weekly volume ever reported, while entries for the season to date at 974,000 bales, exceeded the volume reported in the same period of any preceding season on record. Consumption of cotton during the four-week September period, as reported by the Census Bureau, was 702,425 bales, or somewhat less than trade expectations.

Trade Volume Set Back by Unseasonably Mild Weather

Unseasonably mild weather over much of the nation retarded retail trade in the period ended on Wednesday of last week. While the total dollar volume of retail trade continued to surpass that of a year ago, the number of retailers with smaller sales receipts than a year ago was on the increase. Relaxed credit terms and late shopping hours were used by many retailers to stir shoppers' interest.

Suburban stores generally had less difficulty in surpassing the sales figures of a year ago than did large city department stores.

The total dollar volume of retail trade in the week was estimated by Dun & Bradstreet, Inc., to be from unchanged to 4% higher than the comparable 1952 level. Regional estimates varied from the comparable 1952 levels by the following percentages: New England and Midwest 0 to +4; East —1 to +3; South +1 to +5; Northwest, Southwest and Pacific Coast +2 to +6.

Contrary to seasonal expectations, the interest in apparel lagged two weeks ago as temperatures remained above normal. However, the total spent on apparel last week was about on a par with that of a year before. While the buying of suits and coats declined the past week, the call for casual clothing, haberdashery and accessories remained high. Some New England merchants noted an early start of gift shopping.

The consumer demand for food was about on a par with the level of the preceding week and slightly above that of a year ago. The buying of meat dipped slightly although poultry and beef remained more popular than a year ago. In rising demand were fresh fruits and vegetables while frozen and canned goods declined. The buying of margarine was slightly ahead of a year ago.

Shoppers turned their attention increasingly to household goods last week, as they responded to many attractive promotions. However, the total spent on household goods did not reach the high level of a year before.

In rising demand were floor coverings, incidental furniture, radios and giftware.

Preparations for the coming Christmas season were reflected in a rising call for many items on the wholesale level in the week. As during most of the past year, the total dollar volume of wholesale trade was slightly larger than that of a year earlier.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index, for the week ended Oct. 17, 1953, decreased 5% from the level of the preceding week. In the previous week, Oct. 10, 1953, a like decrease was reported from that of the similar week of 1952. For the four weeks ended Oct. 17, 1953, a decline of 3% was reported. For the period Jan. 1 to Oct. 17, 1953, department store sales registered an increase of 2% above 1952.

Retail trade in New York last week suffered from unseasonably warm weather which resulted in a decline in sales volume of about 10% below that of the similar week a year ago.

According to the Federal Reserve Board's index department store sales in New York City for the weekly period ended Oct. 17, 1953, registered no change from the like period of last year. In the preceding week Oct. 10, 1953, a decrease of 1% (revised) was reported from that of the similar week of 1952, while for the four weeks ended Oct. 17, 1953, no change was reported. For the period Jan. 1 to Oct. 17, 1953, no change was registered from that of the 1952 period.

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U. S. and the World Economy

able capital in Europe. The British, formerly leaders in this field, now need to husband their resource for use in the sterling area. Consequently, Europeans emphasize that virtually the only large pool of funds available for foreign investment is in the United States. They hope that this country will take a leading role in foreign long-term lending, either through the Export-Import Bank, or the International Bank for Reconstruction and Development, or by devising ways and means to encourage private lending and investing abroad.

Pressure to expand foreign lending activities is likely to come also from American industry, since the problem is of real importance, especially to producers of capital goods in this country. The backlog of orders in these industries has dropped substantially in recent months, and manufacturers are bidding vigorously for new business. Since greater foreign lending would substantially increase expenditures on capital projects throughout the world, pressure for a government-sponsored expansion of international lending is likely to grow in the event of some decline in industrial activity at home.

Unquestionably, the task will not be easy, since any important revival of foreign lending and investment must deal with the risks of war, expropriation, inflation, restricted transfers of income and capital, and all the other hazards and obstacles that confront international finance in this mid-twentieth century. Certainly, if American capital is to be induced to go abroad, it must have concrete assurance of more favorable treatment than it has received in some areas in the past. This will require a reorientation of thinking abroad which may not be readily forthcoming.

Furthermore, some troublesome differences of opinion will have to be resolved with regard to the degree to which foreign borrowers should be permitted to spend the proceeds of American loans in the markets of their choice. Europeans quite naturally point out that if we are sincere in our desire to reestablish a more liberal climate for world trade and finance, borrowers should be permitted to make their purchases wherever they find the most satisfactory terms and conditions, while our domestic producers will be inclined to insist that proceeds of United States loans be spent in this country. Nevertheless, despite all the problems and quandaries, it is clear that earnest endeavors to revitalize international lending are essential to the growth of world markets, and the prospects are such endeavors will be made.

Commercial Policies—No less important, and perhaps even more prominent in foreign thinking and discussion, is United States trade policy. Despite the many years of foreign aid, the world is far from paying its way in the American market. Only our large foreign assistance program and military expenditures abroad permitted the rest of the world to continue its purchases from this country and at the same time to add to its gold and dollar balances. If we wish to retain our export markets, we must permit the rest of the world to acquire dollars through sales of goods and services to the American market, or we must continue large aid programs or greatly increase our foreign lending activities.

In the field of American commercial policy, the basic issue is whether the United States will follow a course appropriate to its standing as the world's largest creditor nation. People abroad are concerned over the present United States tariff system under which an exporter to this country, after spending time and money to develop a market here for his goods, may find himself cut off from the market by administrative action of the authorities. The "Buy American" act is cited as a horrible example of American commercial policy. Simplification of customs procedures is desired by all who sell to this country, and it is felt that recent legislation falls short of what is needed.

It is obviously much easier to anlyze the problem than to devise a feasible solution. Any effort to reduce our trade barriers is likely to encounter opposition from the industries affected, and possibly from labor organizations as well. Emphasis will be placed upon the differentials in wage rates and living standards here and abroad, and upon the need to maintain productive capacity in certain industries for national defense. Also, a policy of increasing some imports would conflict with other government measures, such as the support of agricultural commodity prices.

Furthermore, progress toward a more liberal trade policy in recent years has been achieved under conditions of rising business activity and reasonably full employment. In the event of a significant decline in business, the difficulties would unquestionably be greatly enhanced. American producers are already finding themselves frequently underbid by foreign manufacturers; many important engineering contracts are going to European firms. The United States may still have a competitive edge in the design and quality of many products, but here too other nations are improving their positions. Also, since an easing of business conditions in the United States would have a depressing effect upon the ability of foreign exporters to sell in our markets, it would probably discourage any further relaxation of trade barriers aginst dollar imports around the world. All this would make the political and economic climate in this country distinctly unreceptive to any significant further liberalization of our own commercial policies.

Even if these obstacles to a liberalized commercial policy are overcome, foreign producers will still face problems in tapping the American mass markets. Among the difficulties are designing products for the American consumer and adapting advertising and distribution techniques to conditions here. Yet mass markets must be developed if foreign countries are to earn more dollars.

Economic Policies Abroad

It is clear that our position of leadership carries with it grave responsibilities as well as great opportunities to help the nations of the free world build stronger and more productive economies. At the same time, it is evident that this goal cannot be reached through our contribution alone; our efforts, however great, will be futile unless they are accompanied by appropriate fiscal, monetary and credit policies on the part of all countries concerned. Nevertheless, progress is slow, tedious, and fraught with tremendous complexities.

Currency Problems and Exchange Rates—A basic requirement for a sound international economy is the restoration of convertible currencies and the elimination of discriminatory practices in foreign trade and investment. Despite the improvement in foreign monetary reserves, however, the outlook is still quite poor.

Assuredly the trends of recent months have provided encouraging evidence of the growing strength of many world currencies, with the important exception of the French franc. However, the rise in gold and dollar balances has been greatly facilitated by the fact that important trading areas continue to maintain restrictions on imports from the dollar area; rapid relaxation of these trade restraints might sharply cut the further growth of reserves. Furthermore, a substantial amount of dollar exchange stems from United States foreign aid, from expenditures connected with United States troops stationed abroad, and from similar noncommercial sources which cannot serve as firm and permanent foundations for long-range policy. Therefore, many nations emphasize that their monetary reserves are still insufficient to support their foreign transactions, especially in view of the relatively wide fluctuations that occur in international payments.

The difficulties are apparent in connection with endeavors to restore the international convertibility of the pound sterling, a step which now seems to have been deferred for perhaps an indefinite period. This change in British sentiment does not indicate a defection from the long-term goal of making sterling convertible, but reflects instead a reappraisal of the many complex factors involved. It is anticipated that the growth of British gold and dollar reserves over the next 12 months may be somewhat less than in the 12 months just ended. Stocks of raw materials may have to be replenished or increased in order to support the present level of trade; certainly this will be necessary if production is to be expanded. On the other hand, the British defense program is interfering with the drive for exports, especially in the engineering and allied industries in which the British feel that their export future lies.

Consequently, it is realized that the restoration of sterling convertibility and a relaxation of trade restraints presupposes a high degree of cooperation by the United States in the form of a liberalized commercial policy and some support to Britain's monetary reserves. It might also require that the Continental European countries provide some assurance against a repetition of the drain on sterling which thwarted convertibility in 1947. The cooperation required is probably in excess of what can reasonably be expected at this time.

As long as general economic conditions remain satisfactory, another round of currency devaluation is not in prospect. Perhaps the crucial question, on which an answer is not possible at the moment, is whether the currency systems of the free world are sufficiently strong to withstand modest cyclical fluctuations in business activity. Should business conditions and trade balances deteriorate significantly, some countries might be tempted to depreciate their currencies in order to improve their competitive position in world markets. Such advantages tend to be largely transitory, since major currency devaluations have a habit of spreading, but this has not discouraged the practice in the past.

Budget Problems—Government budgets seem to present a problem everywhere in the free world. The similarity of budget difficulties in Western Europe and in the United States is striking. In Europe, as here at home, fiscal policy faces a set of conflicting objectives: to maintain an adequate defense establishment, to support social welfare and public improvements, and to balance the budget. Practically everywhere in Western Europe, budgets are either in precarious balance or running at a deficit, and both sides of the budget—receipts as well as expenditures—are too high.

Tax burdens everywhere are heavy. As a result, there are strong political pressures for tax reductions; these pressures resist any efforts to attain a balanced budget by increasing revenues. The heavy tax burden cuts into individual and business savings, thereby reducing the supply of investment funds. In addition, since budgets are unbalanced, governments tend to preempt much of the available savings for investment in government securities, thereby reducing still further the flow of funds into corporate securities and other private investment outlets. Consequently, many thoughtful students are concerned over the long-range implications of the budget upon Western Europe's economic progress.

Moreover, in addition to raising long-range problems of economic health and growth, the budget presents a very real and immediate impediment to rapid progress on European defense. Budget difficulties have contributed to a general desire to moderate the pace of the Western European defense effort, especially since defense spending competes with social welfare projects for available funds. Political pressures for ambitious programs of social welfare are widespread; even where a Conservative government has taken over, as in Great Britain, no significant curtailment in such programs has been achieved. To shift expenditures from social programs into defense, or to reduce spending for social welfare in order to balance the budget, is not politically feasible. In fact, in some cases it appears that if increases in the defense program are to be made politically acceptable, a concomitant expansion in social welfare programs must be undertaken. It is difficult to avoid the conclusion that in the battle of the budget, defense programs will be the major loser.

Prerequisites to Progress—It is heartening to observe that in the face of these formidable difficulties, progress has nonetheless been achieved in carrying out some policies essential to European recovery. A basic prerequisite for international monetary stability and economic growth is for individual countries to follow a sound course in their economic policies at home, which means above all that they avoid policies that generate inflationary pressures. This implies a willingness to use restrictive credit measures when appropriate; it also implies proper control over fiscal affairs and the avoidance of large budget deficits. In broader perspective it may also envisage a more realistic definition of "full employment" in terms that would cope with the persistent upward pressure upon labor costs and prices from this source. Fiscal, tax and credit policies must limit domestic demand so that goods may be released for export; domestic investment must be kept within reasonable bounds. Finally, in order to make export industries competitive in world markets, it is imperative that productivity be increased and costs be reduced.

It would be erroneous to assume that these principles have been accepted everywhere in Europe or, where accepted, have been fully adopted. Our experience in trying to limit the postwar boom shows how difficult it is to pursue such a set of policies even in a country as well endowed with resources as the United States. It is even more difficult to move toward these goals in Western Europe. Nevertheless, endeavors along these lines have been made, to a greater or lesser extent, among most Western European countries, especially in the field of credit policy. Very often progress has been significantly impeded by the practical necessities of political life. Despite political obstacles, however, many governments appear earnestly willing to work toward a sound, sensible and realistic economic policy.

Summary and Conclusions

It is evident that the Western European economy has made real progress toward industrial recovery, sound finances and international stability. However, much remains to be done and serious problems are still ahead. The international flow of capital must be greatly increased if the economic and political position of the free world is to be strengthened. The reduction of trade barriers, the achievement of a multilateral trade system, and the restoration of freely convertible currencies is still some time away.

Meanwhile, world markets face the prospect of strong competitive pressures, especially in the field of heavy equipment. This heralds increasing problems for the American exporter; it also may retard Europe's progress toward sound monetary, fiscal and international trade policies. Unfortunately, the domestic policies essential to monetary stability are no easier to carry out abroad than they are in the United States; the nations of the free world have a common inheritance of budget and fiscal problems, of expensive social welfare programs, and of emphasis upon "full employment" regardless of some of the consequences.

The outlook is further complicated by the possibility of some decline in the pace of American economic activity from current boom levels and the prospect of a reduction in United States foreign aid. This suggests new problems for the future. Continued military aid is essential if the rearmament of the West is to progress. At the same time, there is fairly widespread agreement that economic aid should be terminated in order to put the Western European economy on a self-sustaining basis.

Presumably, the United States will move in the direction of encouraging private lending and investing abroad. Also, some further efforts may be made to liberalize our commercial policies. Naturally, these endeavors involve important economic and political issues; in a country as large as ours, with its diversified industry and agriculture, much compromise will be required. Nevertheless, we must be guided by the awareness that our financial and economic position in the world has changed profoundly in recent decades and that we are now a leading creditor nation. In our trade and investment policies, we cannot afford to lag behind; rather, we must follow policies consistent with our creditor position.

Today, no less than in the previous decade, the nations of Western Europe and of the free world look to the United States for assistance, guidance and leadership. This responsibility we cannot evade. In spite of all the headaches and the heartaches we have had, and the many more we are bound to incur in the years ahead, there is no alternative for us if we are sound in our judgment and firm in our resolution to strengthen the bastions of the free world.

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The 1953 Stock Market And the Future Trend

ment managers, who are responsible for billions of dollars in investment funds, are not buying in sufficient quantities to sustain an advance beyond recovery proportions.

The Probable Reason for the Market's Decline

It seems to me that the simplest explanation for the market's behavior is that a 12.5 year inflationary boom has come to an end. The stock market experienced a very great rise between April 29, 1942 and Jan. 5 of this year, as a result of (1) the 1942-45 war economy; (2) the subsequent 8-year replacement boom; and (3) the outbreak of the Korean War with its urgent military build-up.

Just what effect did these changes in the economy have on the stock market? The Dow-Jones Industrial Average advanced from 92.92 in 1942 to 293.79 in 1953, or 216.17%; and the Rail Average from 23.31 to 112.53, or 382.75% in the same period. While the Industrial Average rose more from 1932 into 1937, and from 1921 to September, 1929; and the Rail Average rose slightly more in its 1932-37 rise, in no other 11-year period in the history of the Averages has either Average advanced as much it it did between 1942 and 1953.

Before World War II, the Federal Reserve Board Index of Industrial Production (1935-39=100) reached an annual peak of 110 in 1929; and its highest peak at 113 in 1937. Now, consider the subsequent figures for that Index:

Federal Reserve Board Index of Industrial Production

	Range of Years Average	Aver. for Period
1938-41	89 to 162	121
1942-45	199 to 239	219
1946-first half 1950	170 to 192	182
Second half 1950-1952	213 to 220	217
Year Ended July 31, 1953	*218 to 243	234

*Monthly.

The high level of production for the 1942-45 World War II period is understandable. As we know, a tremendous replacement market existed at the end of the war, and accounted for a very high level of peacetime activity to the end of June, 1950. Yet, the highest annual average of the FRB Index for the 4.5 years following World War II was the 1948 average of 192. The outbreak of the Korean War and the defense program again necessitated large expenditures for new and expanded production facilities for military equipment and munitions. Civilian production was curtailed, but not stopped. For nearly three years, there has been record employment at high and rising wages. Nearly everything for both the military and civilian markets has been produced in record quantities. Finally, the Korean Truce was signed, and with it came the end of the urgent need for an "all-out" defense build-up, regardless of cost.

Realistic investors and speculators must anticipate a declining rate of output for Government account. However, the defense program is being continued, and is not being cut to the bone (except for individual items) as it was in 1945. Instead, it is being revised in the light of a considered, practical program. The revision will mean less overall Government expenditures, and output, than the objectives toward which we were moving. The Truce meant a cutback. If a peace treaty eventuates, further cutbacks are probable. On the other hand, if the Government ever comes to the conclusion that we must prepare to fight Russia, the country will return to a restricted, high tax economy. In that event, production of consumers goods will be limited, tax rates will be raised, and corporate net earnings will decline.

As previously stated, in the 4.5 years following World War II, when the pressure for dwellings, facilities, vehicles and household appliances was the greatest, the FRB Index reached a 12-month average peak of 192 (1948). Since the end of World War II, about 46 million passenger cars and trucks have been manufactured, and relatively as many new dwellings constructed, and household appliances produced. On top of this more than 7-year period of very high civilian output, a semi-war economy was imposed, with the result that the FRB Index reached 243 in March of this year, or a point 143% above the 1935-39 average. If the *combination* of the Korean War and defense program, and the accumulated demand for consumers goods, resulted in the FRB Index rising to 243 from its 1946-first half 1950 average of 182, what must we expect now that the accumulated demand for so many things has been filled, and the defense program is being "stretched out" and revised downward? *How much higher can the Index possibly go?* It seems to me that only "all-out" war could raise that Index now.

I think that with the passing of time, 243 for the FRB Index will be considered the counterpart of the 1929 high of the stock market, in that it represents a high extreme for years to come.

Prevailing Deflationary Forces

A number of important changes have occurred in the past 18 months, and especially during the past six months. The prices of farm products have experienced major decline, as has the buying power and willingness of the farmer to make all but necessitous purchases. The farmers are well equipped with machinery. The prices of raw materials have cancelled out their approximate 60% Korean rise. Automobile dealers became so overloaded with both new and used cars this summer that all of the "Independents" found it necessary to curtail output. Judging by the expansion of automobile credit, John Q. Public has his postwar automobile. The same general condition exists in the home appliance field. The railroads are largely dieselized, and have large quantities of other modern equipment. New purchases can and will be postponed where there is concern over earnings. The defense program has been undergoing revision by the new Administration. The period of great urgency and production at any cost, due to the fear of attack, is being replaced by a program of research and weapons improvement and development. Washington opinion is to the effect that the defense program must be based on the premise that there will be no major war for the foreseeable future. With the great civilian demand for autos and home appliances satisfied, a truce in Korea, and a considerably modified conception of a military program, it seems certain that we must expect production for the civilian economy to decline at least to the average 1946-50 level; and the defense economy to be considerably less than its 1953 level.

From the abnormally high level of industrial production that now prevails, the inevitable adjustment is almost certain to be either sharp, or stretched out, or both. This means smaller volume, less employment, fewer carloadings, a contraction in the demand for steel, and so forth. It also means close competitive pricing. Freight rate absorption, alone, is expected to cost the steel industry $80 million of taxable earnings. Is the prudent buyer of stocks who learned the hard way that he must not acquire equities in the late phase of a great boom, making a mistake in waiting until there has at least been a reasonable minimum adjustment to such a great and extended boom?

How Far Will the Market Decline?

I have explained this year's change in the pattern, character, and major trend of the market. Now I would like to tell you what the previous changes from bull to bear have meant.

Heretofore, when the market has reversed its major direction from bull to bear, the bear phase has represented quite a proportion of the preceding bull market either (1) in the extent of its retracement; and/or (2) in the extended period of time it covered. In every previous bear market, either the Industrial or Rail Average, or both, has retraced 48% or more of its preceding bull market rise. If this bear market retraces no more of the 1949-53 rise than the minimum bull market retracement of the past, it will decline to or below 230.34 in the Industrial Average, and/or, to or below 78.21 in the Rail Average.

In eight of the 14 previous bear markets, one Average has more than retraced **all** of its preceding bull market rise. If this bear market proves to be of such proportions, one or both Averages will decline to or below their 1949 lows of 161.60 and 41.03. In every previous bear market, the decline of each Average has amounted to at least 16%. If the bear market of the Industrial Average amounts to 16% in this instance, it will decline to 246.78. If the bear market decline falls within the 20.8% to 29.4% range of five other **sub-average** bear markets, the Industrial Average will decline into the area of 232.68 to 207.41. The Rail Average has already declined 19.53%. If it declined 30%, it would reach 78.77. If the decline of the Industrial Average falls within the 31.4% to 49.2% range of six other bear markets, it will decline into the area of 201.54 to 149.54. In 1929-32, the bear market decline of the Industrial Average amounted to 89.2%.

Because the 1949-53 bull market ran 1,272 days, it was of abnormal duration. The previous bull markets of long duration, in the history of the Averages, were followed by bear markets that ran from about 14 months to the best part of two years. The 1937-38 bear market was of shorter **duration**, but it amounted to 49.1% for the Industrial Average. Based on precedent, the bear market should be expected to extend **at least** into next year, and to materially lower levels than those recorded by the Averages thus far. There is no basis by which anyone can say in advance, when or where it will end. Of this I am certain at this time: it will pay me to patiently wait for reasonable indications that the bear market has culminated before inaugurating a general buying program, just as I waited more than four years for reasonable indications that the bull market had run its course before starting a general selling program.

Since the Averages recorded their 1953 lows thus far, the market has been in process of a recovery of secondary proportions to the August-September decline, similar to the June-August recovery to the January-June decline. Nothing has yet appeared in the plotting of the Industrial Average to suggest that it has reached the high of this recovery. However, the Rail Average does give indications of having reached its recovery peak. It was the more aggressive Average in the bull market, but since July 8, has led the decline.

In both the second and third quarters of this year, the range of the Averages has been lower than their range of the preceding quarter. Both Averages are likely to record new lows for the year this quarter, for in the extent of its decline, the bear market is still young. The lagging performance of the Rail Average suggests that it will precede the Industrial Average into new low ground. Because the major trend is down, the market is likely to be depressed by adverse news from time to time. For the balance of the year, the Industrial Average will be vulnerable to both weakness in special groups of stocks, and selling for tax purposes.

A June-August type or recovery is likely to stem from what prove to be the forth quarter lows of the Averages. Because strength is usual in the early months of the year, the first quarter 1954 lows of one or both Averages may be higher than their fourth quarter 1953 lows. While the first quarter 1954 high of one of the Averages may be higher than its fourth quarter 1953 high, both Averages are unlikely to be higher at that time. On precedent, resumption of decline should be anticipated after the spring rise has run its course.

The bear market is likely to run until the basic condition it is anticipating, namely a lower level of business, has been reached. It is likely to end when adverse news has little, if any, depressing effect on the market, and when volume of trading dries up and averages less than four million shares weekly. If the adjustment to a lower level of business are made without seriously jeopardizing dividend distributions, this will be a "baby" bear market. If, however, as frequently occurs after a prolonged bull market, one or more new unfavorable factors are injected into the economy, the bear market will assume average or greater proportions.

Summing up my remarks, I believe that (1) the peak of the bull market, dating from June 13, 1949, has been reached; (2) the major trend of the market is down; and (3) either much lower prices than those recorded by the Averages Sept. 14 will be reached, or many months will pass, before another worthwhile bull market gets underway.

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Sound Condition of Banks A Stabilizing Influence

course, we all know the country needs some $200 to $300 billion of public works such as schools, highways, etc.

"You are familiar with the sequence of events beginning around 1945-1946 that has had such a profound bearing on the position of the commercial banker and has gradually put us back in the banking business again. This change in the role of the commercial bank coincided, of course, with the initial change in the money markets, which in turn reflected such factors as the tremendous demands for capital and credit inherent in the postwar period, and the initial signs of sounder monetary and fiscal policies by the national Administration.

"If you have studied the earning assets of commercial banks, you noticed that cash and governments and their relationship to total deposits reached a peak in 1945 and have declined steadily ever since. You will also note that the volume of loans and mortgages, after being static for some years, started to increase in 1945 and rose to $50 billion by the end of 1952, or 180%. Equally significant, the per cent of loans and mortgages to deposits turned in the 1944-45 period, and the uptrend has been uninterrupted since. I don't know how close we may have come to the loss of private banking enterprise in this country, but I do know that to serve, develop, and grow, banks must earn sufficiently to attract capital in the competition for it, and now back in the banking business there are good prospects and evidence that they deserve to and do attract capital.

"The significant fact remains that largely as a result of great forces which have been at work, the conversion of bank assets from government obligations to business and the partial freedom for money rates to reflect supply and demand the historic position of the commercial bank has been re-established.

"To be back in the banking business means many things. It means that we again become the hub of the economic and financial life and well-being of the country. It means that we must follow loan policies that meet the needs of the dynamic economy tempered in periods of prosperity and liberalized in periods of unsettlement, so as to bring the maximum combination of stability and growth to the economy and an increasing standard of living to the American people.

"At this point I would feel remiss if I did not call to your attention the vital significance of certain events that have taken place in the last few months, which go beyond the mere fact that bond prices are up sharply, or the indications that we may be experiencing the high in interest rates for some little time ahead.

"The events of the last few months have told us (1) that Federal Reserve policies cannot be wholly independent of the Treasury, which must provide, among other things, for commitments inherited from the past; and (2) that there cannot be a completely free money market when other segments of the economy are still under controls; that is, we cannot have a completely free money market in a semi-managed economy.

"I think it is apparent to all of us that conditions are dramatically different from what they have been in many years and that it will tax the ability of bank management to adjust itself realistically to this ever-changing background. I believe we have such an organization at Marine Midland. We are attempting in New York State to contribute to the sound advancement of the whole banking picture in this economy in a way to give increasing service to our one-half million customers, and in a manner to benefit our stockholders."

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Look for Lower Interest Rates!

deprecate the herculean efforts of the Republicans in stemming the rising tide of Federal expenditures. In fact, after rising steadily since 1948, such expenditures will for the first time be less than the year before. But, even more importantly, for the first time since 1948 new spending authority is substantially less than anticipated budget expenditures, presaging declining spending in future years. Furthermore, so long as the budget deficit is under $3.8 billion, it will balance on a "cash basis" because of Social Security taxes and the operations of the other trust funds, and little borrowing will be necessary. But candor forces me to say that it is indeed doubtful that the deficit can be held to the estimated $3.8 billion, as tax receipts, despite the scheduled rate reductions, are placed at $68.3 billion, although only $65.2 billion was collected in fiscal '53. Borrowing will thus be inevitable —the only question is how much?

Assumption on Credit Policy

The fourth assumption is that the current easy money and credit policy of the Federal Reserve authorities will continue. This assumption is based on the economic and fiscal considerations just outlined, plus the political considerations which are beginning to press on the Republicans.

Last spring undoubtedly taught the Administration the wide gap between monetary theory and practice in a democracy after 20 years of the inflation needle. Financial orthodoxy is indeed a thankless task under such circumstances, and particularly so when a slackening in business activity appears overdue.

Looking at credit policy from a political standpoint, it may be taken for granted that the Reserve banks will continue to buy government securities in the open market to supply reserves to the banks, and that reserve requirements, which are very high, will be further reduced as soon as the downward business trend becomes more pronounced. Furthermore, the discount rate will probably be reduced, as England, France and Denmark have recently reduced their rates; also, the ¼% increase last January in our rate was the only important increase anywhere in the world in the past year!

Continuation of the easier credit policy seems inevitable as any other course would be political suicide. As the Republicans know only too well, organized labor is hostile and farmers are unhappy, to put it mildly. So it does not seem reasonable to expect them to go out of their way to antagonize voters with a monetary policy which will automatically be blamed for any adverse economic developments.

The impact of credit policy on interest rates can hardly be overemphasized. For example, the tight money and higher rates of the first six mmonths of this year were the result of a heavy demand for funds and a determined effort by the government to tighten money through credit restriction and debt management.

When these restrictive policies were reversed through abandonment of the debt-lengthening-get-the-securities-out-of-the-banks campaign and the purchase of $1.1 billion of securities in the open market in June, and the reduction of $1.1 billion reserve requirements in July, the money market literally bounced. Interest rates, particularly short-term rates, declined and the prices of government bonds started an upward movement which has continued for the four intervening months and promises to continue even further. It should be noted that the easy money policy of the Federal Reserve authorities has, likewise, been continued. For example, in September, in the words of the National City Bank in its October Monthly Letter, "the authorities continued their purchases of government securities to the point of forcing money into a market already comfortably supplied . . . excess reserves were pushed up to a daily average of $750 million, while average borrowing from the Federal Reserve fell below $500 million."

The Outlook for Short-Term Rates

This easier reserve position and the Federal Reserve policy of supplying the reserves needed for "legitimate" business purposes indicate a continuance of the ease in the short-term market. Not only is the supply side comfortable, the demand side is not up to expectations. For example, in the three months ended Sept. 23, business loans at the reporting member banks increased only $238 million, in sharp contrast to the $820 million increase in the similar period of 1952. And, while it is true that the Mills Plan shifting the burden of corporation income tax payments to the first six months is partly responsible for this falling off in seasonal increase, and while it is also true that the total of business loans is still very high, the fact remains that normal seasonal expansion has not materialized and the market has reacted to it.

No longer do you hear talk about increasing the prime rate! On the contrary, on Sept. 29 the offering rate on prime four-six months commercial paper eased from 2¾ to 2⅝%. In the same fashion, 91-day Treasury bills fell from 2% in the first half of September to 1⅝% in the second half, which is certainly a nose-dive.

However, happiness at this easing should not be overdone. Any further decline can be only moderate as banking costs are high and the demand for loans is still quite substantial. Also, the huge refundings which the Treasury must carry out will necessitate liberal rates on their short-term offerings. This, of course, will have an almost controlling effect on the market.

The Outlook for Long-Term Rates

Other than higher rates caused by increasing credit risk, it seems fairly certain that long-term rates will continue their recent slow and moderate decline. It seems clear that the increase which followed the March, 1951, accord between the Federal Reserve authorities and the Treasury, and continued until June, was a cyclical swing and not a change in the secular trend.

To the June reversal of monetary and debt management policy with its powerful effects must now be added the decline in demand from the slowing up of business activity. While lower rates and monetary ease seem inevitable, especially in view of the political "facts of life," it should be noted the decline will not be too pronounced. This conclusion is based on the certainty that the supply of tax-exempt securities will be extremely large next year and the fact that the Treasury is in a position to increase the market supply of long-term obligations at will through a resumption of its debt-lengthening program. Undoubtedly, any unusual strength in the government bond market, after it gets closer to par all along the line, will be quickly recognized in a refunding operation!

Even though long-term interest rates will largely depend on the debt management policy of the Treasury, the American Bankers Association speeches of Secretary Humphrey, and Doctor Burgess, his deputy, indicate that future debt-management will be more cautious—that offerings of medium and long-term issues will not be greater than can be absorbed with ease by the market.

Conclusions

My conclusions are very short. Probable declining borrowing by the Federal government and declining borrowing by both business and individuals because of a slackening in business activity, will far more than offset any possible increase in borrowing such as may be expected from states and local agencies. Continuation of the recent high rate of saving and the "easy money" policy of the Federal Reserve authorities insure ease on the supply side.

In consequence, short-term rates will definitely be moderately lower; and long-term rates will also be lower, subject, of course, to the debt management policy of the Treasury—and all present indications are that this policy will be an "easy money" one.

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Arbitrage in the Bond Market

tion plan usually receives entirely different securities. It may receive a portion of its claim in bonds, a portion in preferred stock and a portion in common stock. When the plan has crystallized to a point where the investment fraternity feels that consummation will take place, "when issued" trading takes place, and the market fluctuation in these new securities is the most important factor in the price of the old bonds.

Arbitraging takes place as naturally the old bonds sell at a discount due to the risk inherent in the plan itself. Investment and speculative sentiment determines the prices of the "when issued" securities and this follows through to the old bond. There are various legal steps that are time-consuming in these reorganization plans, and as progress is made, additional interest develops in the new securities. Therefore, the arbitraging transactions are reflected in the market prices for the old securities, and conversely delays adversely affect such market prices.

A historic example of a reorganization plan that is still pending today is the Missouri Pacific. This railroad has been in bankruptcy since 1930. A plan of reorganization was approved by the Interstate Commerce Commission in 1940, the securities proposed under the plan traded "when issued" over the counter and arbitraging took place. However, the plan was remanded by the courts to the Interstate Commerce Commission due to changed economic conditions, and "when issued" contracts were canceled the arbitrageur had no short position, and was merely long the old bonds. Naturally this an had adverse affect marketwise as a great number of these bonds came into the market for sale when the plan was canceled.

Again, we have another plan of reorganization in 1949 and "when issued" trading started under the new plan. In 1951 the plan was once again remanded back to the ICC due to a change in the bankruptcy law. While the "when issued" contracts have not been canceled to date due to the fact that no new plan has been approved by the courts, undoing of arbitrage transactions have had an adverse effect on securities marketwise.

Another type of new bond issued in a reorganization plan is a convertible bond. An example of this is the New York, New Haven reorganization which took place in 1947, wherein there were issued, amongst other securities, an income bond that was traded around 30% of face value and a preferred stock which started trading around $18. Each $100 principal amount of income bond was convertible into a share of preferred stock. At the time of issuance, the conversion privilege had no value at the $30 and $18 prices. However, due to the economic rehabilitation of the road, these securities today sell at the same price. The income bonds which have a semi-investment value higher than the preferred stock, nevertheless have not sufficient quality in view of the 4½% coupon to justify a premium over conversion.

The operation here, if bearish, is to buy the income bonds and go short the preferred stock at approximately the same price. If the market goes up, one need only to convert his position and break even. However, if the market goes down, the preferred stock could have a severe slump. Then the superior investment value of the bond over the preferred would come into play and the income bonds would assume a premium marketwise over the preferred, and the operation would be reversed; namely, the buying in of the preferred and the sale of the income bond at a profit.

Corporations in the past have been able to retire convertible debt, without paying any corporate funds due to the rise in the security into which the bonds are convertible.

Norfolk Southern Income bonds for example, started trading at a nominally low figure convertible into stock on the basis of 40 shares of stock for each $1,000 bond. Last year the stock sold for $35 which is equivalent to $140 for the bonds. The Railroad called the bonds for redemption at par, and practically all the bonds were converted into stock due to the conversion privilege being more valuable than the call price for the bonds. In this way the corporation was able to retire debt without using any treasury funds.

An Example of Arbitrage

My final example of a type arbitrage which affects corporate bonds, although indirectly, is the American & Foreign Power Plan which was consummated last year. The company was solvent and had a 5% bond issue outstanding which was not directly affected by the plan. There were first preferreds amongst other issues outstanding, which had large dividend arrearages, and a new 4.80% subordinate debenture bond, along with common stock, was offered to these preferred holders.

Arbitrage took place in the form of the purchase of the preferred and the sale of the new 4.80% bonds and the common stock. Market pressure on the 4.80's was so great that they were put down to a level that the 5% holders thought it advantageous to sell their bonds and buy the 4.80's. This naturally had a market effect and the 5's went down, due to arbitrage transactions, even though the 5's were not directly involved in the plan.

In conclusion, you can see the effects of arbitraging on convertible corporate bonds is only important when stock market levels are at a high price, so that the arbitrageur or the bondholder converts his bonds into stock and disposes of his market a medium level for stock market prices, corporations still sell convertible bonds but not on as attractive a basis as during periods of high prices.

Naturally, when the market is low, we find no convertible bond financing at all. Corporations then must resort to non-convertible financing.

Lastly, we have reorganization plans which largely take the old corporate bond out of the bond field and place them in semi-investment and speculative categories.

Farmers and Politics

"The preliminary discussion I have had today with the commission [the National Agricultural Advisory Commission] convinces me that it will outline, with the help of many other agricultural groups, developments in the present programs that will help farmers secure their fair share of the national income and work for the good of all.

Pres. Eisenhower

"I was heartened to find the view prevailing that market price adjustments in agriculture, which have been substantial over the past two years, now seem pretty well behind us.

"I sensed, too, a conviction among the members of the commission that the outlook for business activity throughout the economy in the year ahead—a factor so essential to good markets for farm products—is generally reassuring."—President Dwight D. Eisenhower.

We shall, of course, see what we shall see in the form of a "farm program."

Too bad it is that there must be a "farm program" at all in the sense in which the term is used today.

The farmers would be better off if their welfare were not so bedeviled by politics.

With Mutual Fund Assoc.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—Poy C. Ho has been added to the staff of Mutual Fund Associates, 444 Montgomery Street.

Joins Rex Merrick Staff

(Special to THE FINANCIAL CHRONICLE)

SAN MATEO, Calif.—Thomas F. Foley has become affiliated with Rex Merrick, 22 Second Avenue. He was formerly with Benjamin C. Chapman and prior thereto with Hooker & Fay and Waldron & Co.

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)	Nov. 1	§93.7	*95.0	95.3	107.3
Equivalent to—					
Steel ingots and castings (net tons)	Nov. 1	§2,112,000	*2,142,000	2,149,000	2,229,000
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output—daily average (bbls. of 42 gallons each)	Oct. 17	6,310,950	6,313,450	6,494,900	6,527,500
Crude runs to stills—daily average (bbls.)	Oct. 17	¶6,866,000	6,941,000	6,992,000	6,898,000
Gasoline output (bbls.)	Oct. 17	24,263,000	24,030,000	24,687,000	23,152,000
Kerosene output (bbls.)	Oct. 17	2,678,000	2,582,000	2,145,000	2,597,000
Distillate fuel oil output (bbls.)	Oct. 17	10,393,000	10,142,000	9,804,000	10,183,000
Residual fuel oil output (bbls.)	Oct. 17	8,263,000	8,460,000	8,529,000	8,417,000
Stocks at refineries, bulk terminals, in transit, in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Oct. 17	142,796,000	142,517,000	143,740,000	122,002,000
Kerosene (bbls.) at	Oct. 17	37,653,000	37,756,000	37,358,000	34,568,000
Distillate fuel oil (bbls.) at	Oct. 17	130,902,000	129,226,000	126,189,000	120,937,000
Residual fuel oil (bbls.) at	Oct. 17	53,103,000	53,341,000	52,164,000	54,450,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Oct. 17	822,539	804,070	823,884	838,408
Revenue freight received from connections (no. of cars)	Oct. 17	664,545	662,801	654,861	702,916
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Oct. 22	$289,333,000	$268,942,000	$341,242,000	$260,335,000
Private construction	Oct. 22	149,576,000	101,896,000	159,550,000	104,187,000
Public construction	Oct. 22	139,757,000	167,046,000	181,692,000	156,148,000
State and municipal	Oct. 22	115,805,000	127,670,000	165,701,000	123,313,000
Federal	Oct. 22	23,952,000	39,376,000	15,991,000	32,835,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Oct. 17	9,515,000	9,275,000	9,665,000	8,382,000
Pennsylvania anthracite (tons)	Oct. 17	676,000	699,000	609,000	975,000
Beehive coke (tons)	Oct. 17	80,400	*84,700	88,700	94,300
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1947-49 AVERAGE = 100	Oct. 17	118	120	120	124
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Oct. 24	8,306,426	8,264,800	8,353,541	7,696,243
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET, INC.	Oct. 22	185	169	152	154
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Oct. 20	4.634c	4.634c	4.364c	4.376c
Pig iron (per gross ton)	Oct. 20	$56.59	$56.59	$56.59	$55.26
Scrap steel (per gross ton)	Oct. 20	$32.83	$32.33	$35.33	$42.00
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Oct. 21	29.625c	29.625c	29.575c	24.200c
Export refinery at	Oct. 21	28.600c	28.525c	28.750c	34.925c
Straits tin (New York) at	Oct. 21	80.000c	80.000c	81.500c	121.500c
Lead (New York) at	Oct. 21	13.500c	13.500c	13.500c	14.000c
Lead (St. Louis) at	Oct. 21	13.300c	13.300c	13.300c	13.800c
Zinc (East St. Louis) at	Oct. 21	10.000c	10.000c	10.000c	13.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Oct. 27	95.80	95.11	94.00	96.94
Average corporate	Oct. 27	105.69	105.17	103.64	108.88
Aaa	Oct. 27	110.88	110.52	107.98	112.93
Aa	Oct. 27	107.80	107.27	105.52	111.44
A	Oct. 27	105.17	104.83	103.30	108.34
Baa	Oct. 27	99.36	98.88	97.94	103.30
Railroad Group	Oct. 27	103.47	103.30	101.47	106.04
Public Utilities Group	Oct. 27	105.69	105.17	103.30	109.06
Industrials Group	Oct. 27	107.80	107.27	106.04	111.81
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Oct. 27	2.79	2.84	2.92	2.72
Average corporate	Oct. 27	3.41	3.44	3.53	3.23
Aaa	Oct. 27	3.12	3.14	3.28	3.01
Aa	Oct. 27	3.29	3.32	3.42	3.09
A	Oct. 27	3.44	3.46	3.55	3.26
Baa	Oct. 27	3.79	3.82	3.88	3.55
Railroad Group	Oct. 27	3.54	3.55	3.66	3.39
Public Utilities Group	Oct. 27	3.41	3.44	3.55	3.22
Industrials Group	Oct. 27	3.29	3.32	3.39	3.07
MOODY'S COMMODITY INDEX	Oct. 27	393.7	392.9	414.3	409.7
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Oct. 17	220,232	231,884	236,069	226,513
Production (tons)	Oct. 17	216,213	259,457	264,379	248,541
Percentage of activity	Oct. 17	97	97	100	97
Unfilled orders (tons) at end of period	Oct. 17	516,972	560,609	523,839	519,768
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1949 AVERAGE = 100	Oct. 23	105.91	105.99	105.56	109.47
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. 10	20,145	20,711	19,608	24,144
Number of shares	Oct. 10	579,679	594,442	534,943	674,366
Dollar value	Oct. 10	$24,339,678	$25,018,112	$23,598,189	$30,517,997
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Oct. 10	17,731	17,730	15,954	21,027
Customers' short sales	Oct. 10	228	216	219	117
Customers' other sales	Oct. 10	17,503	17,514	15,735	20,910
Number of shares—Total sales	Oct. 10	497,206	503,649	458,745	592,967
Customers' short sales	Oct. 10	10,185	8,575	8,044	4,457
Customers' other sales	Oct. 10	487,021	495,074	450,701	588,510
Dollar value	Oct. 10	$19,087,496	$19,096,128	$17,288,749	$23,768,696
Round-lot sales by dealers—					
Number of shares—Total sales	Oct. 10	148,970	140,320	139,630	170,510
Short sales	Oct. 10	------	------	------	------
Other sales	Oct. 10	148,970	140,320	139,630	170,510
Round-lot purchases by dealers—					
Number of shares	Oct. 10	229,530	236,430	209,030	270,980
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	Oct. 3	318,720	352,450	349,460	169,660
Other sales	Oct. 3	4,991,020	5,550,840	6,481,710	5,964,260
Total sales	Oct. 3	5,309,740	5,903,290	6,831,170	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	Oct. 3	575,640	632,950	687,430	496,770
Short sales	Oct. 3	119,040	125,260	102,110	94,130
Other sales	Oct. 3	458,290	505,930	606,360	433,220
Total sales	Oct. 3	577,330	631,190	708,470	527,350
Other transactions initiated on the floor—					
Total purchases	Oct. 3	155,450	210,340	139,100	91,000
Short sales	Oct. 3	23,200	21,700	21,200	4,800
Other sales	Oct. 3	157,700	173,200	114,960	110,490
Total sales	Oct. 3	180,900	194,900	136,160	115,290
Other transactions initiated off the floor—					
Total purchases	Oct. 3	174,005	218,630	214,895	172,590
Short sales	Oct. 3	38,990	44,150	39,850	19,780
Other sales	Oct. 3	199,302	180,855	204,970	251,825
Total sales	Oct. 3	238,292	225,005	244,820	271,605
Total round-lot transactions for account of members—					
Total purchases	Oct. 3	905,095	1,061,920	1,041,425	760,360
Short sales	Oct. 3	181,230	191,110	163,160	118,710
Other sales	Oct. 3	815,292	859,985	926,290	795,535
Total sales	Oct. 3	996,522	1,051,095	1,089,450	914,245
WHOLESALE PRICES, NEW SERIES — U. S. DEPT. OF LABOR — (1947-49 = 100):					
Commodity Group—					
All commodities	Oct. 20	110.0	110.1	110.7	110.6
Farm products	Oct. 20	94.6	*95.1	98.1	105.1
Processed foods	Oct. 20	104.1	*104.2	104.7	107.4
Meats	Oct. 20	87.4	*87.2	92.4	105.2
All commodities other than farm and foods	Oct. 20	114.6	114.6	114.6	112.5

*Revised figure. ¶Includes 669,000 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
BUILDING CONSTRUCTION—U. S. DEPT. OF LABOR—Month of September (in millions):			
Total new construction	$3,310	$3,323	$3,160
Private construction	2,185	2,205	2,029
Residential building (nonfarm)	1,087	1,107	1,045
New dwelling units	950	970	930
Additions and alterations	111	112	97
Nonhousekeeping	26	25	18
Nonresidential building (nonfarm)	516	502	434
Industrial	180	179	190
Commercial	183	172	101
Warehouses, office and loft buildings	69	64	44
Stores, restaurants, and garages	114	108	57
Other nonresidential building	153	151	143
Religious	45	43	38
Educational	39	38	32
Social and recreational	15	15	12
Hospital and institutional	26	27	34
Miscellaneous	28	28	27
Farm construction	144	158	162
Public utilities	428	427	381
Railroad	44	44	39
Telephone and telegraph	54	54	51
Other public utilities	330	329	291
All other private	10	11	7
Public construction	1,125	1,118	1,131
Residential building	47	43	54
Nonresidential building	375	373	393
Industrial	150	154	177
Educational	152	150	139
Hospital and institutional	25	26	41
Other nonresidential building	48	43	36
Military and naval facilities	120	121	134
Highways	400	405	380
Sewer and water	71	69	62
Miscellaneous public service enterprises	23	19	21
Conservation and development	77	77	81
All other public	12	11	6
BUSINESS FAILURES—DUN & BRADSTREET, INC.—Month of September:			
Manufacturing number	145	148	107
Wholesale number	85	71	58
Retail number	336	340	288
Construction number	89	92	50
Commercial service number	31	49	36
Total number	686	700	539
Manufacturing liabilities	$13,676,000	$10,267,000	$6,780,000
Wholesale liabilities	4,614,000	3,042,000	4,365,000
Retail liabilities	9,790,000	10,275,000	5,317,000
Construction liabilities	4,451,000	3,868,000	2,729,000
Commercial service liabilities	1,286,000	1,077,000	947,000
Total liabilities	$33,817,000	$28,529,000	$20,138,000
COTTON SEED AND COTTON SEED PRODUCTS—DEPT. OF COMMERCE—Month of August:			
Cotton Seed—			
Received at mills (tons)	276,415	113,485	397,546
Crushed (tons)	181,688	155,321	148,184
Stocks (tons) August 31	250,099	155,372	386,260
Crude Oil—			
Stocks (pounds) August 31	37,830,000	42,451,000	38,375,000
Produced (pounds)	57,397,000	55,418,000	44,768,000
Shipped (pounds)	64,594,000	72,884,000	46,335,000
Refined Oil—			
Stocks (pounds) August 31	918,585,000	928,561,000	318,006,000
Produced (pounds)	59,998,000	67,740,000	42,285,000
Consumption (pounds)	83,622,000	68,663,000	92,727,000
Cake and Meal—			
Stocks (tons) August 31	69,948	91,549	47,876
Produced (tons)	86,379	75,673	70,059
Shipped (tons)	107,980	106,743	67,267
Hulls—			
Stocks (tons) August 31	42,162	48,318	25,775
Produced (tons)	38,534	32,526	31,862
Shipped (tons)	44,690	52,200	30,702
Linters (running bales)—			
Stocks August 31	58,966	63,101	112,507
Produced	60,177	48,657	46,230
Shipped	64,312	73,625	40,949
Hull Fiber (1,000-lb. bales)—			
Stocks August 31	263	165	777
Produced	564	43	486
Shipped	466	184	a
Motes, Grabbots, etc. (1,000 pounds)—			
Stocks August 31	4,222	6,068	3,269
Produced	835	715	905
Shipped	2,681	2,653	1,989

a Not shown to avoid disclosure of individual companies.

	Latest Month	Previous Month	Year Ago
EDISON ELECTRIC INSTITUTE:			
Kilowatt-hour sales to ultimate consumers—Month of July (000's omitted)	31,951,012	31,358,370	26,987,637
Revenue from ultimate customers—month of July	$566,985,200	$555,797,900	$493,511,800
Number of ultimate customers at July	49,210,737	49,024,806	47,750,528
HOUSEHOLD VACUUM CLEANERS — STANDARD SIZE (VACUUM CLEANER MANUFACTURERS' ASSN.)—Month of August:			
Factory sales (number of units)	185,029	159,446	222,413
LIFE INSURANCE — BENEFIT PAYMENTS TO POLICYHOLDERS — INSTITUTE OF LIFE INSURANCE—Month of August:			
Death benefits	$157,326,000	$162,438,000	$145,944,000
Matured endowments	35,611,000	36,873,000	31,584,000
Disability payments	7,982,000	9,265,000	8,229,000
Annuity payments	33,904,000	33,908,000	29,886,000
Surrender values	55,733,000	57,780,000	47,978,000
Policy dividends	54,829,000	61,713,000	54,840,000
Total	$345,385,000	$361,977,000	$318,461,000
TREASURY MARKET TRANSACTIONS IN DIRECT AND GUARANTEED SECURITIES OF U. S. A.—Month of September:			
Net sales	------	------	------
Net purchases	$38,406,800	$377,400	$3,545,450
U. S. GOVT. STATUTORY DEBT LIMITATION —As of Sept. 30 (000's omitted):			
Total face amount that may be outstanding at any time	$275,000,000	$275,000,000	$275,000,000
Outstanding—			
Total gross public debt	272,936,996	273,205,827	262,681,570
Guaranteed obligations not owned by the Treasury	63,651	63,269	40,061
Total gross public debt and guaranteed obligations	$273,000,647	$273,269,096	$262,721,632
Deduct—other outstanding public debt obligations not subject to debt limitation	578,974	580,797	630,223
Grand total outstanding	$272,421,672	$272,688,299	$262,091,408
Balance face amount of obligations, issuable under above authority	2,578,327	2,311,700	12,908,591

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Our Foreign Policy War Provoking

to 106% in 1951 and to 112% in 1950. In fact in the past 12 years, the period of greatest steel production in history, steel operations were above 95% of capacity in only six years.

America Not Overbuilt

If we have an easing off in business volume we will probably hear again the cry that America is over-built. Some people will call for government to step in and make up the deficiency between current levels and some arbitrary level of prosperity. I certainly cannot agree that the would be a good thing for the country. Government is a powerful factor and has its proper place in the economy. It can do much to develop sympathetic understanding of economic problems and do much to cooperate in their solution. But the effects of any economic downtrend will be best met if taken care of by the people themselves. And when government is given the responsibility, the people themselves do not respond. We businessmen have a responsibility, one that used to be considered a normal, expected part of our jobs. I mean—get out and sell.

America is not over-built. No substantial amount of our great new industrial capacity will lie idle for long. Four tremendous factors will be working to keep it busy. The first is obvious; the constant growth in American population. The second factor is the American trait, inspired by education and justified by experience, never to be satisfied with a stationary scale of living. It is this that creates the ever-expanding, eagerly-receptive, uniquely American market for more things, better things, new things. The third factor is the vigor, alertness, ingenuity and inventiveness applied by Americans to taking advantage of the opportunities provided by this market. And the fourth is the constant increase in productvity which makes it possible to expand the production of goods and services and also creates the ability to buy them. These four factors, plus gifts of nature, plus political and economic freedom, in my opinion, have been the true basis of American progress. There is no reason why they should not continue to be.

I have always been an optimist about America. There has never been a time when my company has not been building. In National Steel we are building today. We have definite plans for the future expansion of our company. We are doing this because we believe that America is still growing and will continue to grow. We propose to grow with it. If we compare today's standard of living with the standard of say 50 years ago, the advance that has taken place is simply amazing. Starting from the much broader base of 1953, I believe firmly that the future holds in store an even more astonishing advance and in a much shorter time.

This optimism about America's future is subject to only one condition. The condition is that we must find a basis for world peace. I use the word "we" deliberately. Too many persons regard peace as the exclusive business of government, of diplomats. So long as too many people feel that way, steps toward peace are likely to be halting and unsure—as they have been. Peace is your business and mine. It is everybody's business because it is fundamental in the whole business of life. And there will be no genuine and definite move toward peace until there is a strong demand from the people in our own and other countries that governments make that move.

There is no question in my mind that people the world-over want peace. I have made five rather extensive trips to Europe since the end of World War II. I say without hesitation that the No. 1 aspiration of Europe is peace. Several months ago some friends of mine made a long business trip to Asia. Everywhere they went they found world peace the main subject of interest. We know that there is an overwhelming sentiment for peace in the United States and throughout the Americas. There is plenty of evidence that the same sentiment prevails among the peoples behind the Iron and Bamboo curtains. They, too, are painfully familiar with the terror, suffering and destruction of war and have lived in a state of continuous tension far longer than people in the free world.

As a matter of common sense we know that the real interest of the peoples of the world is not in ideologies nor in power politics. There is a revolution in the world but it is a revolution against low conditions of life, against hunger, and in some cases against actual starvation. These are the things that people are really against. They want improvement in their living conditions and they know that improvement can come only through peace—and never through war. Here we have a strange paradox. On the one hand the rank and file peoples of the world want peace. On the other hand governments of the world have done little or nothing concrete to establish peace. Why?

Facing a Painful Fact

The question brings us face to face with a painful fact. Throughout the world a large part of the responsibility for this situation is placed on the United States. It is commonly accepted that no peace can be achieved without agreement between Russia and the United States for the simple reason that in the event of war—by which I mean no isolated action like Korea but World War III—it is the United States and Russia that would be the opposing centers of power. And, in world opinion, the United States has been acting much more like a country that considers war inevitable than a country that hopes for peace.

Russia has been waging a "peace offensive." It has been doing its utmost to convince the Russian people and the outside world that Russia wants peace and that it is the Western World and more particularly the United States that wants war. You hear little war talk or even defense talk from Russia. This may be only psychology, but if so, it is smarter psychology than ours from the standpoint of its effect on world opinion. To a greater extent than an American likes to admit, the Russian position is accepted in Europe. Not so much because of Russian propaganda but for the practical reason that Russia's own interest, in European opinion, demands that Russia keep out of war. For that same reason, Europeans are deeply convinced that the time is ripe for a definite approach to peace.

In the European view, the policy of the United States is the big stumbling block to peace. This has aroused fear and resentment which have lowered the prestige of the United States, reduced confidence in its leadership and weakened the unity of the Western World. The fear is that continuance of the United States policy may lead to war. Europeans know the United States does not want war . . . that our country will fight only if it has to. But they fear that somehow, somewhere along the line, something will happen to start the war no one wants.

I was in Europe last May when Prime Minister Churchill first proposed negotiations by the United States, England, France and Russia. The spontaneous response to that proposal showed that Churchill was not speaking for England alone but was voicing the sentiment of an overwhelming majority of people throughout Europe. Europe expects no miracle to come out of negotiation but believes, deeply and sincerely, that negotiation affords the opportunity—and the only real opportunity — to start a movement toward peace. You will remember that when he again proposed an international conference in his recent Margate speech Churchill said that talks between leaders "might do good and could not easily do much harm and that one good thing might lead to another." He went on to say: "Let us try to see whether there is not something better for us all than tearing and blasting each other to pieces, which we certainly can do."

In brief, the European position may be stated this way: They consider the Western World a partnership and regard their countries as important partners. Up to now the policy of the Western World has been set by the United States which they recognize as the leading partner. Europeans believe that this policy is no longer in accord with the reality of the present world situation. They think that if it is continued the best that can be hoped for is continuance of the present stalemate between East and West—with its ruinous cost in both material and human terms and with its ever-present danger of war. They believe that policy should be modified now to permit a positive approach to peace. Specifically, they want the Western World to take the initiative in seeking negotiations for peaceful settlement of differences between East and West.

To the United States, the European attitude presents a direct and most serious question and it must be answered. How should the United States respond? In my opinion, our country has no alternative but to accede to this European demand. We simply cannot "go it alone." To say that we can is ridiculous as is obvious to anyone who will look at a world map and note the places on it where the United States now has military bases. Europe is as essential to us as we are to Europe—in war or in peace. If we really want Western unity then I say we must work with Europe because Europeans are deeply convinced that peace is possible. Until that possibility is explored sufficiently to prove them right or wrong, Europe will not support any other line of policy or action.

There is another reason why the United States should declare a definite peace policy. As I said earlier, there is a universal sentiment for peace among rank and file people throughout the world. If the United States takes the initiative for peace it will in that respect become the spokesman for all these people. And with the powerful voice of the United States speaking for peace it would become increasingly difficult for a war-minded leadership of any nation to sell its people the idea of war. I believe this result would be achieved in Communist countries as well as in others because, actually, there are no autocratic countries any more—by which I mean autocratic in the sense of countries with rulers able to act without regard to the sentiment of their peoples. A case in point is the elaborate care used to convince the Russian people of the peaceful intentions of Russia's leaders. This proves, I believe, both that the Kremlin is deeply concerned about public opinion and that the sentiment for peace is deep and widespread in Russia —as elsewhere.

Negotiation—Only Device for Moving Toward Peace

There is only one device, one mechanism, through which we can move toward peace. It is the conference table—negotiation. I know that the idea of negotiation with Russia is extremely repugnant to many people for many reasons. Let's consider some of the reasons.

There are persons who do not say that we cannot deal with Russia but that we should not. Their reason is that Russia is not a normal nation capable of normal international relations but the citadel of communism which Russia intends to spread throughout the world. To those people we should be engaged in a holy crusade which can end only with the end of communism. In other words, they would have us fight a war to eradicate an idea. These people overlook the experience of all history. Never has an idea been beaten out of the human mind by force; it has only been implanted more deeply. Ideas are discarded or changed only as they are found to be wrong—which may take a very long time. We disagree with communism. There are many people in the world who do not. The military defeat of Russia would not mean the eradication of communism. We are going to have both Russia and communism in the world as far into the future as any man can see. The practical thing is to recognize this as a fact and conduct ourselves accordingly.

There are others who see no use in negotiation because they think Russia is bent on war and cannot be diverted. Or that Russia will make peace only on the basis that she gains everything and gives nothing. Or that Russia will be insincere and use negotiations only to create propaganda situations. Yet these are all prejudgments. Negotiations are the only means by which we can determine their actual truth or falsity.

Still others object that our negotiators probably would be outsmarted. Or that Russia would make a peace but only to induce the Western World to drop its guard and be softened up for the time Russia chose to attack. Or that Russia would use peace as a front behind which she could undermine the Western World through Communist activity in various countries. But all of these things are under our own control and if any of them happen it will be only because of our own negligence. By her action in British Guiana, for instance, England certainly demonstrated her determination to deal firmly with communism as an internal problem.

Now the big thing to be noted about all of these objections is that they leave us but one alternative—that is, to keep going the way we are now; and if we do this, I feel positive that we are going to drift into war. Surely, as Prime Minister Churchill says, there must be "something better" than this, and surely, as he also says, "negotiations might do good and could not easily do much harm." In fairness to ourselves, in fairness to the kind of nation we are and have always been, we should never let it be said that because of the United States the world has lost an opportunity for peace.

If we are to move toward peace, then our National policy must be entirely different than the one urged day by day by most of those who are doing the talking and the writing on this question. We must dispense with the idea that the slightest suggestion of anything but a "tough" attitude is appeasement. You probably read the article of Adlai Stevenson in "Look" magazine in which he gave his conclusions on his recent seven-month tour of the world, or heard the speech several weeks ago in which he covered the same ground.

Among other things, he advocated that the United States attempt to find peace through negotiation. The day after that speech Senator Ferguson of Michigan strongly criticized Mr. Stevenson and branded his suggestion as "appeasement." Now I read the Stevenson article carefully. It impressed me as a sincere effort to make a helpful contribution to American thinking on international affairs. I could find no "appeasement" in it. It seems to me that any suggestion made in good faith should be welcomed and considered on its merits. Emotional attacks cannot help; they can only confuse the American people as we try to find our way through the most complicated and potentially dangerous situation in world history.

Negotiation—Not Appeasement

Negotiation does not mean appeasement. There are some matters which the Western World will not compromise under any circumstances. It is to be expected that on some matters the Communist world will not compromise. In between these fixed positions there must be a large area of possible agreement. Negotiation can establish the boundaries of this area and can locate the particular items on which agreement can be reached most readily — probably matters of lesser importance rather than the great critical issues. The most important thing initially would be to establish an atmosphere of agreement — an international attitude different in the same way that a man who is willing to sit down and talk things over is different from a man with a chip on his shoulder.

On my return from Europe early last summer I prepared a statement describing the European position and advancing the idea of United States participation in negotiations for peace. It has been published as a pamphlet and through requests, ranging up to several thousands of copies, the total distribution is now close to 300,000. The statement also has been reprinted in a good many American newspapers and magazines, and was even reprinted with only three minor deletions by "Pravda." So far, more than 3,000 persons have written to me about the statement. More than 100 letters came from Americans who have traveled in Europe recently and all but two say that I appraised the situation correctly. Most of the letters came from the United States, from all parts of it, and from all kinds of people. Only 35 of these letter writers—out of more than 3,000—took exception to the statement in general and the idea of negotiation in particular. This may not be conclusive proof but certainly it is a strong indication that Americans generally do not subscribe to the "tough" attitude so frequently advocated by correspondents, columnists, commentators and persons prominent in public life.

Little to Lose—Much to Gain in Negotiation

In negotiations we have so little to lose and so much to gain. Suppose Russia refused to negotiate or sought to block negotiation by continually finding objections to our proposals. In this event, Russia's position would become indefensible and our position greatly strengthened in the eyes of most of the world. Suppose Russia did enter negotiations but that the worst fears were confirmed — that Russia proved arrogant,

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hostile and unreasonable, demanded everything, offered nothing, showed that she had no genuine interest in peace. If that happened the situation at least would be finally clarified. We would know where we stood. We would know where Russia stood. Europe would know that its hopes were unfounded. Russia would be branded before the entire world as the true threat to its peace. The Western nations would be welded into a true unity. Grim as the prospect might be; high as the cost might be, we could then move decisively to protect the security of the free world against any eventuality.

But suppose Europe is right in her conviction that Russia—because she is over-expanded, because of her internal situation and for other reasons—is now genuinely ready to make peace. In that event, I believe the world at last will be justified in looking forward to a better day. And I believe this even if Russia actually seeks nothing more than a breathing spell. Because, if the tide once sets in toward peace I am convinced that this generation, at least, will not see that tide reversed—regardless of the ambitions of leaders in any country. The kind of peace I look for is nothing sudden and dramatic. Rather, I expect it to be a movement toward peace, achieved little by little and carefully tested at each step but with a gradually relaxing tension and slow replacement of international fear and distrust with confidence.

On Threshold of Greatest Movement in History

For 40 years — probably the most dismal time in human history — destruction, death, suffering, insecurity, fear, waste of the accumulated wealth of centuries, have been the theme of life. Men everywhere have been under pressure to concentrate on the work of destruction. If this pressure can be released, the creative energies of mankind will burst forth in a torrent. Human activity will be devoted once again to the work of construction. I am convinced that we will stand on the threshold of one of the greatest, most dynamic, forward movements in history.

And I believe this movement is overdue. There are no remote countries any more. New means of travel, transportation and communication carry modern knowledge everywhere. A few weeks ago in Pittsburgh, a prominent scientist just returned from a long stay in Africa, said this: "Africa is no longer ignorant of us. Decisions reached yesterday on Capitol Hill in Washington are today being discussed in the Katanga of Africa." He also said: "Africa cannot be ignored because what is happening there today will affect America, as well as Europe, tomorrow." What is true of Africa is true around the world.

People in places farthest removed from the centers of civilization now know that life can afford something better than their present lot. They want that something better; they want to start to catch up. And this is not something to be feared; it is to be welcomed. Rightly appraised, this universal desire for improvement can be a stimulus to world progress and prosperity far beyond anything ever known before. I have heard people express fear about competition from a resurgent Europe. In my opinion, they simply lack imagination. To raise the world average of living standards by a single notch will require every pound of production from Europe, the United States and every other industrial area for years to come. In this great forward movement there will be opportunity for every country to participate and to benefit—if only the world can find the way to peace.

I will not dwell on what will happen if the world drifts into war. I am told that one hydrogen bomb can demolish the great City of New York and its entire surrounding area. There is no way that we can prevent some planes getting through; some bombs finding their targets. There is no way that Russia can prevent some planes getting through; some bombs finding their targets. If we have World War III, no one can possibly win. But the civilization, built through the labor of centuries, will certainly be lost . . . and with it, all hope for the future.

Peace—A Matter Not for Government Alone

If I were to ask each one of you, "Which do you want — war or peace?," I know that the answer — without exception — would be "Peace, of course." But if I should ask, "What are you going to do about it?," what would you answer? This is not a matter that can be left solely to government while we go about our business as usual. No government can long continue any policy in a climate of public opinion unfavorable to that policy. If we want peace, we cannot let all the talking, all the writing, all the molding of public opinion be done by those who advocate a national policy which must lead ultimately to war. We must advocate that our country, while doing everything needful to maintain our own security and that of the Western World, at the same time pursue a policy that creates the opportunity for peace.

As the facts of the world situation become more generally known I am convinced that American public opinion will overwhelmingly support a national policy with the objective of peace. Public opinion is the accumulation of the separate opinions of individuals. There is not one of us who cannot—each in his own way—do something to help build a public opinion in favor of taking the steps toward peace. As I said earlier, peace is fundamental in the whole business of life. At this particular moment in history, there is no business more important than the business of peace. With all the emphasis at my command, I urge each of you to make the winning of peace your business.

Continued from page 5

Observations . . .

proposals than any other corporation lawyer, and I certainly have no sympathy whatsoever with most of Mr. Gilbert's proposals in the executive compensation field, where he suggests arbitrary ceilings upon bonuses and pensions and completely loses sight of the need and function of incentives. But, to paraphrase an historic statement, while many of us may disagree violently with what he has to say, we should all fight for his right to say it. And if he so wishes, he should, at least in the absence of heavily overweighing considerations, have the right to say it again and again—not merely once in every four years.

Limitation on a stockholder's right to speak once every four years would be the net effect in a great majority of cases of the amendment the SEC recommends, for the amendment would authorize the omission of a proposal from a proxy statement for three years if it were submitted within five years and received less than 3% of the votes cast on the first submission, less than 7% on the second submission and less than 10% on the third or a subsequent submission within a five-year period. These percentages—particularly that of 3%—may not seem high, but realistically and having in mind the long and slow process needed for stockholder education, the percentages may be prohibitive. The requirement of percentage approval for repeated legislative consideration would have prevented or effectively postponed adoption of measures that we now take for granted, such as women's suffrage.

Stifling the Proposers

The other SEC recommendation, dispensing with the requirement of identifying a stockholder making a proposal, likewise tends to stifle new measures before they have had an opportunity of gaining support. To organize opposition communication is needed. To require a stockholder who is interested in or has questions about a proposal to write the company for the name and address of the sponsor is to place road-blocks in the way of communication. The inertia problem is serious enough without road-blocks. Moreover, such road-blocks may defeat all communication in the case of stockholders who may wish to remain anonymous—such as company employes who are stockholders as well.

Apart from this point, the identity of the sponsor of a proposal may be relevant in ascertaining his bias or personal interest. The very fact that a proposal is sponsored by Mr. Gilbert, for instance, may lead to the proposal being discounted by other stockholders.

With regard to both SEC proposals, it should also be observed that they in no way limit management. Management can theoretically include the same proposals in their company's proxy statement year after year without limitation of any kind, and the simplicity of communication with management is, of course, apparent.

Every year my work requires me to read many hundreds of proxy statements. I have seen no abuses serious enough to warrant the measures recommended. Nor can these recommendations be justified as economy measures. Chairman Demmler has himself pointed out that "The submission of such [minority stockholders'] proposals and the tabulation of votes thereon are at worst a comparatively inexpensive burden considering the size of the corporations subject to the proxy rules."

Other Disclosure Relaxation

Other SEC recommendations relaxing disclosure requirements in the proxy statement are of the same pattern. The dividing line for annual compensation disclosures is increased to $30,000 a year from a previous $20,000 and the present $25,000 figure, an increase not unwarranted by change in the dollar's value. However, the dividing line for disclosures of indebtedness is increased to $30,000—quite a jump from the present figure of $1,000 above which officer or director indebtedness must now be disclosed. Perhaps a thousand dollar figure is too low, but an indebtedness of $5,000 or $10,000 may be significant in many cases; to fix the same dividing-line for salaries and loans is to suggest that loans are a form of compensation. A recommended change in the case of options also calls for comment. At present, all options to management must be disclosed, but the SEC recommends that disclosure be confined hereafter to options granted or exercised involving an aggregate purchase price of $30,000 or more. With an option price of less than $30,000, an option could still involve a profit of a million dollars or more, but no disclosure of the profit would need be made under the SEC recommendation.

I believe management has little to gain and much to lose from throttling the right of stockholders to be heard and from concealing the nature and amount of executive pay. It was abuses in these very respects that contributed to the enactment of Federal securities and other New Deal legislation. The proposed amendments are, I fear, a step toward paving the way for a repetition of these abuses. They should be opposed by everyone concerned with the interests of management as well as the interests of stockholders.

Sincerely yours,

V. HENRY ROTHSCHILD II

New York City,
October 28, 1953.

Mr. Berle on Stockholder Apathy

Even more important than the un-gagging of the public stockholder is, as we have previously observed, his *exercise* of his privileges and obligations to exercise his franchise in his property. Hitting this nail squarely on the head is the following excerpt from a communication to this column from A. A. Berle, Jr., eminent legal authority, who co-authored that epic which first and best depicted the implications of the segregation of ownership and control, "The Modern Corporation and Private Property":

"Your observations are entirely sound. The legislative privilege to vote is not going to make a functioning democracy in the corporate world. Investors and stockholders want to be governed, and not bothered; merely reserving the right to raise hell if the management takes advantage of their apathy. In this respect they are like a political constituency."

Our Reporter's Report

Keen students of the money and investment markets are observing things closely at the moment for a clue to the near-term trend. They are inclined to take the marked success of this week's United Gas Corp. offering, despite a large "cover," with a grain of salt.

Curiously enough it develops that the quick absorption of this particular issue, $25,000,000, was touched off by buying orders from large insurance companies which have been aloof from the new issue market for many months. One such company took down a block of $3,000,000, according to reports.

They point out that the dearth of new stuff has really been putting a premium on such offerings as reach the market, particularly where these are of the type acceptable for certain investment outlets.

But there is an air of caution evident, particularly among those who gauge things in the corporate market by the spread existing between top grade corporates and the government list. They are commencing to wonder just what this spread should be, whether it should be 25 basis points, 30 basis points or perhaps a little more.

The tendency is to view high-grade corporates as ranging a bit too close to governments at the present time. This raises the question of whether such bonds are not being priced out of range of insurance companies and other big investors.

Doing a Little Praying

Just now the rank and file among underwriters and security distributing firms must be praying for a further advance in the government market.

Such a development certainly looks necessary if several of this week's new corporates are to be assured of success. The Treasury 3¼s, due in 30 years, are now selling around 104 for an indicated yield of 3.05%.

And the two newest utility offerings, Public Service Electric & Gas Co.'s $30,000,000 of 30-year bonds brought out as 3¼s to yield 3.18% and Niagara Mohawk Power Corp.'s $40,000,000 with similar coupon and maturity, brought out to yield 3.22% appeared definitely on the slow side as far as buyer interest was concerned.

New Registrations

Evidently industry is taking stock of its future prospects judging by the slow-down in new registrations with the Securities and Exchange Commission.

This week's new filings were comparatively light, with the largest being entered by Columbus & Southern Ohio Electric Co. covering new bonds and common shares.

This company proposed to sell $10,000,000 of new first mortgage bonds at competitive bidding about Dec. 1. The common stock would be offered through a banking group sometime after Nov. 24 when company officials and bankers are slated to meet to discuss the projected financing.

Treasury Offering

The Treasury's last offering of bonds for cash proved to be about in line with expectations and had little visible effect on the seasoned market. The maturity and the rate naturally made the issue attractive to commercial banks.

Meanwhile the various sections of the municipal and quasi-municipal market were fairly active, with the State of Massachusetts $31,045,000 offering, and the City of Philadelphia's $10,000,000 bonds topping the list.

The Port of New York Authority's offering of $20,000,000 of bonds brought out brisk competition with only pennies separating the two highest bids.

With First Southern Inv.

(Special to THE FINANCIAL CHRONICLE)

BOYNTON BEACH, Fla.—Miriam H. McEwen has been added to the staff of First Southern Investors Corporation, 524 Jasmine Street.

With Guardian Securities

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif. — Horace J. Brown has been added to the staff of Guardian Securities Corporation. He was formerly with Francis I. du Pont & Co.

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Securities Now in Registration

★ INDICATES ADDITIONS SINCE PREVIOUS ISSUE
● ITEMS REVISED

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. Conversion price beginning Feb. 9, 1954 is $136 per share of capital stock. **Price**—At par (flat), $100 for each $100 principal amount. **Proceeds**—For advances to subsidiary and associated companies, etc. **Underwriter**—None.

American Water Works Co., Inc.
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 has not been 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.

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.

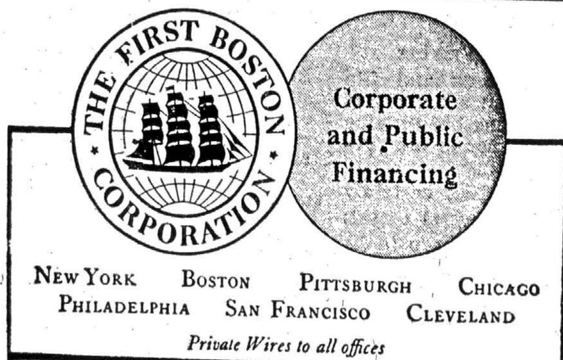
Bingham-Herbrand Corp., Toledo, Ohio
Sept. 28 (letter of notification) $100,000 aggregate market value of common stock (par $1). **Price**—At market (estimated at $10.75 per share). **Proceeds**—To selling stockholder. **Underwriter**—Wm. J. Mericka & Co., Inc., Cleveland, O. **Offering**—May be withdrawn.

★ **Bridgeport Brass Co. (11/17)**
Oct. 28 filed 238,628 shares of common stock (par $5) to be offered for subscription by common stockholders of record on Nov. 17 on the basis of one new share for each four shares held. **Price**—To be supplied by amendment. **Proceeds**—For expansion program. **Underwriters**—Hornblower & Weeks and Stone & Webster Securities Corp., both of New York.

★ **Bucyrus-Erie Co., So. Milwaukee, Wis.**
Oct. 23 (letter of notification) 700 shares of common stock (par $5). **Price**—At market. **Proceeds**—To William W. Coleman, the selling stockholder. **Underwriter**—Harris, Upham & Co., New York.

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.



NEW ISSUE CALENDAR

October 30 (Friday)
Texo Oil Corp. .... Common
(Petroleum Finance Corp.) $280,320

November 2 (Monday)
Central National Bank of Cleveland .... Common
(Offering to stockholders)
Century Acceptance Corp. .... Common
(Wahler, White & Co.) $34,500

November 4 (Wednesday)
Chicago, Burlington & Quincy RR. .... Equip. Tr. Ctfs.
(Bids to be invited) $5,400,000

November 5 (Thursday)
American Tel. & Tel. Co. .... Debentures
(Offering to stockholders—no underwriting)
New Mexico-San Juan Natural Gas Co. .... Common
(Hunter Securities Corp.) $299,200
North Star Oil & Uranium Corp. .... Common
(Lincoln Securities Corp.) $300,000

November 9 (Monday)
General Precision Equipment Corp. .... Preferred
(The First Boston Corp. and Tucker, Anthony & Co.) $5,408,350
Gulf Cities Gas Corp. .... Class A
(Eisele & King, Libaire, Stout & Co.) $300,000
Long Island Lighting Co. .... Bonds
(Bids noon EST) $25,000,000

November 10 (Tuesday)
Koehring Co. .... Common
(Loewi & Co.) 50,000 shares

November 12 (Thrusday)
Eastern Industries, Inc. .... Preferred
(Blair, Rollins & Co. Inc. and Cohu & Co.) $1,000,000

November 13 (Friday)
Dixie Cup Co. .... Preferred
(Glore, Forgan & Co. and Hornblower & Weeks) $7,623,250

November 16 (Monday)
California Water Service Co. .... Preferred
(Dean Witter & Co.) $2,000,000
Ludman Corp. .... Debentures
(Courts & Co.) $750,000
Storer Broadcasting Corp. .... Common
(Reynolds & Co.) 200,000 shares

November 17 (Tuesday)
Bridgeport Brass Co. .... Common
(Offering to stockholders—underwritten by Hornblower & Weeks and Stone & Webster Securities Corp.) 238,628 shares
Columbus & Southern Ohio Electric Co. .... Common
(Dillon, Read & Co. Inc. and The Ohio Co.) 200,000 shares
Oklahoma-Mississippi River Products Line, Inc. .... Debentures & Common
(Eastman, Dillon & Co.) $3,000,000 debs. & 480,000 shs.
Pacific Lighting Corp. .... Common
(Blyth & Co., Inc.) 800,000 shares
Worcester County Electric Co. .... Preferred
(Bids noon EST) $7,500,000

November 23 (Monday)
American Fidelity & Casualty Co. .... Preferred
(Geyer & Co.) $750,000
Gulf States Utilities Co. .... Bonds
(Bids 11 a.m. EST) $10,000,000
Illinois Power Corp. .... Bonds
(Bids to be invited) $20,000,000
Iowa Southern Utilities Co. .... Common
(First Boston Corp.) about 100,000 shares

November 24 (Tuesday)
Government Employees Corp. .... Debentures
(Offering to stockholders—underwritten by Johnston, Lemon & Co. and E. R. Jones & Co.) $500,000

November 25 (Wednesday)
Delaware Power & Light Co. .... Common
(Bids to be invited) 232,520 shares

December 1 (Tuesday)
Columbus & Southern Ohio Electric Co. .... Bonds
(Bids to be invited) $10,000,000
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

January 13 (Wednesday)
Ohio Edison Co. .... Common
(Offering to stockholders—bids to be invited) 527,830 shs.

January 19 (Tuesday)
Ohio Edison Co. .... Bonds
(Bids to be invited) $30,000,000

★ **California Water Service Co. (11/16-17)**
Oct. 22 filed 80,000 shares of cumulative convertible preferred stock, series H (par $25). **Price**—To be supplied by amendment. **Proceeds**—To repay bank loan and for new construction. **Underwriter** — Dean Witter & Co., San Francisco, Calif.

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.

● **Central Illinois Light Co.**
Oct. 7 filed 100,000 shares of common stock (no par), being 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**—$36.50 per share. **Proceeds**—For repayment of bank loans and new construction. **Underwriter**—Union Securities Corp., New York.

● **Century Acceptance Corp. (11/2)**
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.

★ **Century Controls Corp.**
Oct. 26 (letter of notification) 300,000 shares of common stock. **Price**—At par ($1 per share). **Proceeds**—For equipment and working capital. **Office** — Allen Blvd., Farmingdale, N. Y. **Underwriter**—None.

★ **Columbus & Southern Ohio Electric Co. (11/17)**
Oct. 27 filed 200,000 shares of common stock (par $5). **Price**—To be supplied by amendment. **Proceeds**—To repay bank loans and for new construction. **Underwriter**—Dillon, Read & Co., Inc., New York; The Ohio Company, Columbus, Ohio.

★ **Columbus & Southern Ohio Electric Co. (12/1)**
Oct. 27 filed $10,000,000 of first mortgage bonds due 1983. **Proceeds**—To repay bank loans and for new construction. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; 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). **Bids**—Expected to be received on Dec. 1.

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.

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.

★ **Cutter Laboratories, Inc., Berkeley, Calif.**
Oct. 26 filed 25,000 shares of capital stock to be offered for sale under Stock Purchase Plan to employees of this company and its subsidiary, Cutter Laboratories, Intl.

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.

★ **Delaware Power & Light Co. (11/25)**
Oct. 28 filed 232,520 shares of common stock (par $13.50) to be offered for subscription by common stockholders of record Nov. 25 on the basis of one new share for each seven shares held; rights to expire on Dec. 15. Employees will receive rights to subscribe for up to 150 shares each. **Price**—To be named by company on Nov. 23. **Proceeds**—For construction program. **Underwriters**—To be determined by competitive bidding. Probable bidders: 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. **Bids**—Tentatively expected to be received on Nov. 25.

★ **Dixie Cup Co., Easton, Pa. (11/13)**
Oct. 23 filed 152,465 shares of cumulative convertible preferred stock, series A (par $50) to be offered for subscription by common stockholders at rate of one

preferred share for each five common shares held (for a 15-day period). **Price**—To be supplied by amendment. **Proceeds**—For expansion program. **Underwriters**—Glore, Forgan & Co. and Hornblower & Weeks, both of New York. **Meeting** — Stockholders will vote Nov. 3 on approving an issue of 200,000 authorized shares of preferred stock.

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. No decision reached to date.

★ Eastern Industries, Inc., New Haven (11/12)
Oct. 22 filed 100,000 shares of 6% cumulative convertible preferred stock, series A. **Price**—At par ($10 per share). **Proceeds**—To refund bonds and repay bank loans and for working capital. **Underwriter**—Blair, Rollins & Co., Inc., and Cohu & Co., both of New York.

★ First Mortgage & Realty Co., Columbus, O.
Oct. 19 (letter of notification) 1,000 shares of common stock (no par). **Price**—$100 per share. **Proceeds** — For working capital. **Office**—55 East State St., Columbus 15, Ohio. **Underwriter**—None.

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 Precision Equipment Corp. (11/9)
Oct. 16 filed 108,167 shares of cumulative convertible preferred stock (no par—stated value $50 per share), to be offered for subscription to common stockholders on the basis of one new share for each six shares held on 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 46/11th 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.

★ Greyhound Parks of Alabama, Inc., Phoenix, Ariz.
Oct. 21 filed $400,500 of 6% 10-year cumulative income debentures, due Oct. 1, 1962, and 40,050 shares of common stock (no par) to be offered in units of four debentures of $250 principal amount each and 100 shares of stock. **Price**—$1,100 per unit. **Proceeds**—To rehabilitate and construct racing plant in Tucson, Ariz. **Business**—Dog racing with pari-mutuel betting privileges. **Underwriter**—None.

★ Guardian Chemical Corp.
Oct. 26 (letter of notification) 42,000 shares of common stock (par 10 cents). **Price**—$2.37½ per share. **Proceeds**—For working capital.. **Office**—10-15 43rd Ave., Long Island City, N. Y. **Underwriter**—Batkin & Co., New York.

★ Gulf Cities Gas Corp. (11/9)
Oct. 22 (letter of notification) 60,000 shares of class A stock (par $1). **Price** — $5 per share. **Proceeds** — For equipment and to pay notes. **Office**—600 16th St.. North, St. Petersburg, Fla. **Underwriter**—Eisele & King, Libaire, Stout & Co., New York.

★ Gulf States Utilities Co. (11/23)
Oct. 22 filed $10,000,000 of first mortgage bonds due Dec. 1, 1983. **Proceeds** — To repay bank loans and for new construction. **Underwriters** — To be determined by Competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler 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**—To be received up to 11 a.m. (EST) on Nov. 23 at office of The Hanover Bank, 70 Broadway, New York 15, N. Y.

★ Gulf Sulphur Corp., North Kansas City, Mo.
Oct. 27 filed 700,000 shares of convertible preferred and participating stock (par 10 cents). **Price**—$10 per share. **Proceeds**—To develop company concessions. **Underwriter**—Peter Morgan & Co., New York.

• Hartford Electric Light Co.
Oct. 2 filed 105,500 shares of common stock (par $25) being 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**—$44 per share. **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.

★ Illinois Power Co. (11/23-24)
Oct. 28 filed $20,000,000 first mortgage bonds due 1983. **Proceeds**—To repay bank loans and for new construction. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; 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. **Bids**—Tentatively expected to be received on Nov. 23 or Nov. 24.

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.

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 500,000 shares of common stock (par $1) **Price**—To be related to the quotation on the American Stock Exchange market. **Proceeds**—For working capital and general corporate purposes. **Underwriters**—John R. Boland & Co., Inc., New York; Paul C. Kimball & Co. and Republic Investment Co., Inc. of Chicago, Ill.; Barham & Co., Coral Gables, Fla.; and Frame McFadyen & Co., Toronto, Canada.

★ Keystone Custodian Funds, Inc., Boston, Mass.
Oct. 26 filed 50,000 series B-3 shares; 500,000 series B-4 shares; 50,000 series K-1 shares; 25,000 series S-1 shares, and 50,000 series S-4 shares. **Price**—At market. **Proceeds**—For investment. **Underwriter**—None.

★ Koehring Co., Milwaukee, Wis. (11/10-13)
Oct. 22 filed 50,000 shares of common stock (par $5). **Price**—To be supplied by amendment. **Proceeds**—Expected to net company around $1,250,000, will be used to reimburse company for funds expended to acquire ownership of Waterous, Ltd., now known as Koehring-Waterous, Ltd., and to replace funds expended on improvements in Koehring Co.'s plants, particularly Koehring Southern Co. **Underwriter**—Loewi & Co., Milwaukee, Wis.

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.

★ Lockheed Aircraft Corp., Burbank, Calif.
Oct. 22 filed 26,000 shares of capital stock (par $1) to be offered together with 18,520 shares of previously registered, to be offered for subscription by employees pursuant to company's stock purchase plan. **Price**—$19.35 per share. **Proceeds** — For general corporate purposes. **Underwriter**—None.

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**—Expected to be received up to noon (EST) on Nov. 9.

★ Ludman Corp., North Miami, Fla. (11/16-20)
Oct. 26 filed $750,000 of 6% sinking fund convertible debentures due Nov. 1, 1968. **Price**—At par (in units of $100 each). **Proceeds**—To repay bank loans, and for new equipment and general corporate purposes. **Underwriter**—Courts & Co., Atlanta, Ga.

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.

★ Montana Power Co., Butte, Mont.
Oct. 21 (letter of notification) 10,000 shares of common stock (no par) to be offered for subscription by employees of the company. **Price**—$28.50 per share. **Proceeds**—For general corporate purposes. **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. **Offering**—To be sold from time to time over the counter.

• New Mexico-San Juan Natural Gas Co. (11/5)
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.

★ North Star Oil & Uranium Corp. (11/5)
Oct. 23 (letter of notification) 600,000 shares of common stock (par five cents). **Price**—50 cents per share. **Proceeds**—To acquire certain mining claims, etc. and for exploration, development, drilling and working capital **Office** — 129 So. State St., Dover, Del. **Underwriter** — Lincoln Securities Corp., New York.

★ Oklahoma-Mississippi River Products Line, Inc., Tulsa, Okla. (11/17)
Oct. 26 filed $3,000,000 of 25-year subordinated debentures due Nov. 1, 1978, and 480,000 shares of common stock (par one cent) to be offered in units of $50 principal amount of debentures and eight shares of stock. An additional 300,000 shares of common stock will be sold to certain individuals. **Price** — To be supplied by amendment. **Proceeds** — To construct petroleum pipe line. **Underwriter**—Eastman, Dillon & Co., New York.

Orange Community Hotel Co., Orange, Texas
Sept. 14 filed 8,333 shares of capital stock (par $20) and 8,333 registered 4% debentures due Jan. 1, 1984 of $100 each to be offered in units of one share of stock and one $100 debenture. **Price**—$120 per unit. **Proceeds**—To construct and equip hotel building. **Underwriter** — None. (Subscriptions to 4,949 shares of stock and 4,949 debentures are held by a group of citizens of Orange formed under the auspices of the Orange Chamber of Commerce.)

★ Pacific Lighting Corp. (11/17)
Oct. 26 filed 800,000 shares of common stock (no par). **Price**—To be supplied by amendment. **Proceeds**—To repay bank loans and for advances to subsidiaries. **Underwriter** — Blyth & Co., Inc., San Francisco, Calif., and New York, N. Y.

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.

★ Price (L. B.) Mercantile Co., St. Louis, Mo.
Oct. 20 (letter of notification) 11,750 shares of common stock (par $25) to be offered for subscription by employees. **Price**—$25.50 per share. **Office**—4702 Olive St., St. Louis, Mo. **Underwriter**—None.

★ Puritan Fund, Inc., Boston, Mass.
Oct. 23 filed 125,000 shares of capital stock (par $1). **Price**—At market. **Proceeds**—For investment. **Underwriter**—None.

★ Safeway Finance Co., Inc., Cheverly, Md.
Oct. 22 (letter of notification) 8,000 shares of 6% cumulative preferred stock (par $10) and 10,000 shares of 6% cumulative class A common stock (par $1). **Price**—At par. **Proceeds**—For small loan office. **Office**—2600 Valley Way, Cheverly, Md. **Underwriter**—None.

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.

★ Sears, Roebuck & Co., Chicago, Ill.
Oct. 26 filed 25,000 memberships in the company's Savings and Profit Sharing Pension Fund and 700,000 underlying shares of the company's capital stock.

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.

★ Storer Broadcasting Corp. (11/16-17)
Oct. 23 filed 200,000 shares of common stock (par $1). **Price** — To be supplied by amendment. **Proceeds** — To certain stockholders. **Office**—Miami Beach, Fla. **Underwriter**—Reynolds & Co., New York.

Strategic Materials Corp., Buffalo, N. Y.
Aug. 31 filed 198,500 shares of common stock (par $1) to be offered for subscription by common stockholders at rate of one new share for each share held. **Price**—To be supplied by amendment. **Proceeds**—To repay bank loans and other 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.

★ Texas Adams Oil Co., Inc.
Oct. 22 (letter of notification) 300,000 shares of common stock (par 10 cents). **Price**—$1 per share. **Proceeds**—To test wells. **Office**—42 Broadway, New York. **Underwriter**—Philip Gordon & Co., Inc., 39 Broadway, New York.

Texo Oil Corp., Ardmore, Okla. (10/30)
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.

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**

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—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 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. **Offering** — Expected late in November.

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.

★ **Ute Uranium, Inc., Denver, Colo.**
Oct. 19 (letter of notification) 22,500,000 shares of common stock. **Price**—At par (1 cent per share). **Proceeds**—For mining and drilling. **Office** — 602 First National Bank Bldg., Denver 2, Colo. **Underwriter**—Kamp & Co., Inc., Denver, Colo.

★ **Virginia Electric & Power Co.**
Oct. 28 filed 558,946 shares of common stock (par $10). **Price**—To be supplied by amendment. **Proceeds**—For construction program. **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. **Offering**—Expected late in November or early in December.

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.

★ **Western Empire Petroleum Co., Ogden, Utah**
Oct. 22 (letter of notification) 3,000,000 shares of common stock (par five cents). **Price**—10 cents per share. **Proceeds**—To drill well. **Office**—812 Eccles Bldg., Ogden, Utah. **Underwriter** — Samuel B. Franklin & Co., Los Angeles, Calif.

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.

★ **Workers Loan Co., Dubois, Pa.**
Oct. 21 (letter of notification) $200,000 of 10-year 7% subordinated debentures due Oct., 1963. **Price**—At par (in denominations of $500 each) and accrued interest. **Proceeds**—For working capital. **Underwriter**—Blair F. Claybaugh & Co., Harrisburg and Pittsburgh, Pa.

★ **Zurbach Steel Corp., Camden, Me.**
Oct. 21 (letter of notification) 750 shares of common stock (no par) and $25,000 of 5% debenture bonds. **Price**—Of stock, $125 per share; and of bonds, at par (in denominations of $50 each). **Proceeds**—For working capital. **Office** — 74 Elm St., Camden, Me. **Underwriter** — None.

Prospective Offerings

● **American Fidelity & Casualty Co. (11/23)**
Oct. 21 it was stated registration is expected on Oct. 29 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 Dec. 8. 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. 26 it was reported company is planning to issue and sell 240,000 shares of common stock. **Underwriters**—The First Boston Corp. and Blyth & Co., Inc. **Offering**—Expected late in November.

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.

★ **Bagdad Copper Corp.**
Oct. 26 it was reported company has advised stockholders it had revised downward from $14,000,000 to between $7,000,000 and $8,000,000 its needs for new financing.

Blair Holdings Corp.
June 24 it was announced company plans to issue and sell publicly $2,000,000 of convertible debentures. **Proceeds** — For development of Stanwell Oil & Gas Ltd., newly acquired subsidiary. **Underwriters**—Blair, Rollins & Co. Inc. and The First California Co.

Central 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 50,000 shares of new preferred stock. Underwriters—To be determined by competitive bidding. Probable bidders: Stone & Webster Securities Corp.; Lehman Brothers and Glore, Forgan & Co. (jointly); Blyth & Co., Inc., Harriman Ripley & Co., Inc. and Smith, Barney & Co (jointly); Salomon Bros. & Hutzler.

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; Blair Rollins & Co. Inc.; Kidder, Peabody & Co.

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.

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.; Kuhn, Loeb & Co., Lehman Brothers and American Securities Corp. (jointly).

Delaware Power & Light Co.
Oct. 5 it was announced company plans to issue and sell in 1954 about $10,000,000 of first mortgage and collateral trust bonds. **Proceeds**—For construction program. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp. and Blyth & Co., Inc. (jointly); White, Weld & Co. and Shields & Co. (jointly); Union Securities Corp.; Lehman Brothers; Morgan Stanley & Co.; Kuhn, Loeb & Co. and Salomon Bros. & Hutzler (jointly); W. C. Langley & Co.

Detroit Edison Co.
March 24 it was announced company plans to issue an unspecified amount of convertible debentures due 1963 (about $55,000,000 to carry an interest rate not exceeding 4%) which may first be offered for subscription by stockholders. **Proceeds**—To retire bank loans and to meet construction costs. **Meeting**—Stockholders on April 14 authorized the new debentures. **Underwriter**—None.

Eastern 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.

★ **General Tire & Rubber Co.**
Oct. 23 it was announced stockholders on Dec. 3 will vote on approving a proposal to provide for an additional class of preferred stock. There are said to be no present plans for issuing any of these shares when authorized.

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 4½% 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. **Underwriters**—Johnston, Lemon & Co., Washington, D. C.; and E. R. Jones & Co., Baltimore, Md.

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.

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.

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**—The First Boston Corp., New York.

Maier Brewing Co., Los Angeles, Calif.
April 13 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. **Prceeds** — To help finance a new bottling plant. **Underwriter**—None.

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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 American Acceptance Corp.
Oct. 15 it was reported company plans to issue and sell in January all or part of 300,000 authorized shares of preferred stock (par $10), subject to approval of stockholders on Dec. 17. **Underwriter**—J. G. White & Co., New York.

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 Illinois Gas Co.
See Commonwealth Edison Co. above.

● Northern Natural Gas Co.
Sept. 23 it was announced company plans to issue and sell between $15,000,000 and $25,000,000 debentures in December. **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.**

★ Ohio Edison Co. (1/13)
Oct. 22 it was reported company may offer for subscription by its common stockholders of record Jan. 13, probably on a 1-for-10 basis, 527,830 additional shares of common stock. **Proceeds**—For construction program. **Underwriters**—To be determined by competitive bidding. Probable bidders: Morgan Stanley & Co.; Lehman Brothers and Bear, Stearns & Co. (jointly); The First Boston Corp.; Merrill Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co. (jointly); Glore, Forgan & Co. and White, Weld & Co. (jointly).

★ Ohio Edison Co. (1/19)
Oct. 22 it was reported company tentatively plans to issue and sell an issue of $30,000,000 first mortgage bonds due 1984. **Proceeds** — For repayment of 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.; Glore, Forgan & Co., White, Weld & Co. and Union Securities Corp. (jointly). **Bids**—Expected to be received on or about Jan. 19.

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.

Riddle Airlines, Inc., New York
Aug. 11 it was announced company plans future public financing to secure cargo transport aircraft.

★ Rochester Telephone Corp.
Oct. 21 it was announced company has filed a petition with the New York P. S. Commission for authority to offer to common stockholders 156,250 additional shares of common stock (par $10) in the ratio of one new share for each four shares held. Proceeds—To repay bank loans and for new construction. Underwriter—The First Boston Corp., New York. Offering—Expected before Jan. 1, 1954.

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 Public Service Co.
Aug. 6 it was announced company plans to issue and sell about $20,000,000 of securities (to consist of around $12,000,000 bonds; from $2,000,000 to $3,000,000 of preferred stock; and the remainder in common stock, the latter to be offered first to stockholders on a 1-for-13 basis). Underwriter—Dillon, Read & Co., New York. Offering—Expected in January or February 1954.

Suburban Electric Co.
Sept. 28 it was reported company plans issuance and sale of about $4,000,000 bonds. Underwriters—May be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Merrill Lynch, Pierce, Fenner & Beane and Union Securities Corp. (jointly); Lehman Brothers; Kidder, Peabody & Co.

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.

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.

★ Williston Basin Pipeline, Inc., Billings, Mont.
Oct. 21, A. W. Hartwig, President, announces company plans to build a pipeline from the Billings-Laurel refining area to Glendive, Mont., to cost approximately $7,000,000. Financing expected to be done privately. Underwriter—Dillon, Read & Co. Inc., New York.

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Dealer-Broker Investment Recommendations & Literature

Micromatic Hone Corporation—Data—de Witt Conklin Organization, 100 Broadway, New York 5, N. Y.

Northern Pacific Railway Co.—Analysis—Granger & Company, 111 Broadway, New York 6, N. Y.

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

Sweet Grass Oils Ltd.—Memorandum—Weber-Millican Co., 50 Broadway, New York 4, N. Y.

Texas Gulf Sulphur Co., Inc.—Analysis—Abraham & Co., 120 Broadway, New York 5, N. Y.

Unilever, N. V.—Analysis—Hallgarten & Co., 44 Wall Street, New York 5, N. Y.

Wagner Electric Corporation — Brochure — Scherck, Richter Company, Landreth Building, St. Louis 2, Mo.

Williams & Co., — Memorandum — Moore, Leonard & Lynch, Union Trust Building, Pittsburgh 19, Pa.

Niagara Mohawk Pr. Bonds Offered by First Boston Group

Public offering of a new issue of $40,000,000 Niagara Mohawk Power Corp. 3¼% general mortgage bonds, due Oct. 1, 1983, is being made today (Oct. 29) by an investment banking group headed by The First Boston Corp. The bonds are priced at 100.625 and accrued interest, to yield approximately 3.22% to maturity. This issue was awarded at competitive sale on Wednesday on a bid of 100.0399.

The bonds are redeemable for debt retirement and maintenance funds at special call prices scaled from 100.63 to 100 in 1982 and at general redemption prices ranging from 103.63 during the 12 months ending Sept. 30, 1954 to 100 after Sept. 30, 1982.

Niagara Mohawk, which supplies electric and gas service in a large portion of upstate New York, will use the proceeds from this financing to retire $39,600,000 in outstanding bank loans borrowed for construction and property additions in 1953, to reimburse the company's treasury and to finance in part its construction program, which will cost approximately an additional $89,000,000 for the balance of the present year and for 1954.

The company's present electric generating capacity of 2,706,551 kilowatts will be increased by 384,350 kw at the completion of current construction plans. The company is also one of five utilities which propose to organize and finance a company to construct and operate a project for the redevelopment of the Niagara River and to provide an estimated net 1,100,000 kw of generating capacity, in addition to Niagara Mohawk's existing plants.

Consolidated operating revenues of the company and its subsidiaries for the eight months ended Aug. 31, 1953, totaled $137,139,000 and gross income for the same period was $23,123,000.

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Restoring Our Free Enterprise System

into an economic tailspin. We could bring on a man-made depression, as you know we can do almost overnight. There is a golden mean there somewhere which is stability, and that is what we seek.

In the accomplishment of that objective, we have to have a great deal of patience, we have to feel our way along, and it isn't advisable that it be done overnight. But out of it all, I think you will find that a greater portion of the public debt will be put in a position where it cannot be monetized, thereby removing one of the major influences which has resulted in inflation, and I think you will find that there probably will be no necessity for increasing the government debt. And, therefore, we anticipate that the Congress shall not be called back in session for that purpose.

Personally—and this is my own thinking only—I think it was a mistake to have ever presented the question of raising the debt to the Congress. There is a rule of law as old as the ages, that laws may be amended or repealed by implication, if the Congress of the United States appropriated more money than was seemingly allowed under the debt limit, if by implication it increased the debt limit proportionately as it appropriated over the debt limit. But, of course, when the matter was presented to the Congress, then there was nothing for the Congress to do but to increase the debt limit, because had it acted negatively, of course the implication that it intended to increase the debt limit by appropriating over the debt limit would have been negatived.

Frankly, I don't know what the situation is today. The House did increase it. The Senate took no action. But the Senate took no negative action. So I presume there would be an implication so far as the validity of bonds issued over the debt limit, the same as if Congress had not had the matter submitted to it.

Increase Debt Limit to $290 Billion

But there has been suggested a very happy compromise to this whole question of debt limit, and I believe a very desirable thing would be to increase the debt limit to $290 billion from the present $275 billion.

You think perhaps that statement is a little inconsistent with the one that I just made, that there wasn't any particular necessity of submitting the matter to Congress, but if you will recall, back in 1939 we had a differential between total debt—the limit on total debt and the limit on bonded indebtedness. I recall very well in 1939 the total bonded debt limit was $30 billion. The total debt limit was $45 billion, a differential of $15 billion. So that it was necessary to finance debt above $30 billion. It had to be in short-term financing.

That helped to control somewhat the volume and velocity of credit. So we removed the limit on bonded indebtedness and increased the bonded debt limit to the total debt limit in order that under the plan which we had adopted the whole debt could be monetized, not just part of the debt, but the whole debt, that part of the debt owned by the banks.

Many of us feel that now is the best time to restore this differential between long and short-term debt, and to announce in doing so that we are doing it for a purpose, that purpose being to segregate, isolate, a certain part of the bank-held debt, which cannot be monetized, and thereby remove these threats, these pressures which are constantly with us in respect to deficit financing and its affiliation with inflation.

Federal Home Loans

And I think that the suggestions which have been made by bankers that FHA be discontinued and that FNMA be discontinued connotes that they are willing to set up their own secondary market through the establishment of a central mortgage bank or by contributing private capital to the expansion of the Federal Home Loan Bank.

Those are the two suggestions which have been offered, either one of which I believe would be acceptable in place of FNMA, and probably could do a better job in the long run.

The central mortgage banks have been advocated here domestically as a result of studies which have been made in respect to the financing of housing in France and Italy, and it is rather appealing. The government, of course, would help in the establishment of the original capital, with the understanding that the Treasury be reimbursed for it.

Then, on the other hand, in the Congress there has been much discussion in respect to the expansion of the Federal Home Loan Banks to get them to do the job which they were originally set up to do. Personally, I don't think that we have made full use of the Home Loan Banks as a secondary market. Perhaps some legislation is necessary to give them more authority, broader authority, but surely we will have no trouble if we decide that we should do it through the Federal Home Loan Bank System in passing the necessary legislation.

We brought about inflation deliberately, we legislated inflation. Back in the '30s, we reduced the gold reserves, if you will recall, from 35 to 25% behind deposit liability and we reduced the gold reserve behind the issuance of Federal Reserve notes from 40 to 25%, we broadened the base. And then we said that the banks would no longer have to put up commercial paper as security for the issuance of Federal Reserve notes, they could use bank-held government debt for the other 75%.

It was in keeping with that program that we removed this differential between long- and short-term debt. So we wedded the debt to our money so closely that fluctuations in the debt were almost immediately reflected in fluctuations in the value of our money, and because the fluctuations in the debt have always been up, consequently fluctuations in the value of money have proportionately been down. That is what we did to create inflation.

Many of us think that in keeping with this new policy of government, wherein we have repudiated inflation as a matter of government policy, we should reverse the processes somewhat slowly, cautiously, by which we brought about inflation, in the realization of this objective to stabilize. And that is what we believe will be accepted by the Administration, because it is the sensible approach to this problem.

So if we find that we have to raise the debt limit, I would suggest that we keep the present bonded debt limit where it is at the present time, $275 billion. If it is necessary to raise it beyond that, we might raise it to reestablish this traditional differential of $15 billion, although it wouldn't be the same percentagewise, so that the total debt would be $290 billion, but $15 billion over the $275 billion would have to be in short-term financing, which for all practical purposes could not be monetized.

There has been a great deal of discussion, and I must get along and hit these high spots if I may. I am now looking into my crystal ball. I see Congressman Multer and Congressman Keogh, and I know that they are going to check on me in the months to come, and I presume that I shall have some very unpleasant moments with my colleagues if I don't try to make good on some of these predictions, because I know they are playing just as much of a role in trying to accomplish the same purpose, to perpetuate the American system and to bring about stability.

In the first place, I know that you are very much interested in the secondary markets which the government has created, especially whether FNMA will be continued, and the part which FHA and VA are going to play in the future.

I was a little surprised that some bankers have advocated the discontinuance of FHA and the VA insurance program on the premise that there is enough private credit available to do the job which has got to be done. I think that that is a subject for study. But if it is true that we find private credit in sufficient quantities to produce about a million homes or a million units a year, then we will try to turn the job over to private enterprise, but I assume that those who are advocating that contemplate that the government will continue a secondary market in some form, at least until such time as private enterprise can establish its own secondary market.

And I think that the suggestions which have been made by bankers that FHA be discontinued and that FNMA be discontinued connotes that they are willing to set up their own secondary market through the establishment of a central mortgage bank or by contributing private capital to the expansion of the Federal Home Loan Bank.

Those are the two suggestions which have been offered, either one of which I believe would be acceptable in place of FNMA, and probably could do a better job in the long run.

Central Mortgage Banks

The central mortgage banks have been advocated here domestically as a result of studies which have been made in respect to the financing of housing in France and Italy, and it is rather appealing. The government, of course, would help in the establishment of the original capital, with the understanding that the Treasury be reimbursed for it.

Then, on the other hand, in the Congress there has been much discussion in respect to the expansion of the Federal Home Loan Banks to get them to do the job which they were originally set up to do. Personally, I don't think that we have made full use of the Home Loan Banks as a secondary market. Perhaps some legislation is necessary to give them more authority, broader authority, but surely we will have no trouble if we decide that we should do it through the Federal Home Loan Bank System in passing the necessary legislation.

But there is a thing which concerns me a little bit and seems to be somewhat inconsistent if it is not studied in relation to a study of bank legislation. That is, the insistence by some of these people, the same people who are advocating a discontinuance of FHA and a return to the conventional method of financing, that we lower the down payments.

Of course, that is controlled very much by state laws, and Federal laws up to the present time have tried, as far as practical, to conform to state laws in that respect and all others. In some of these states there would have to be a 40% down payment instead of a 20% down payment. So there is a little inconsistency there somewhere which must be reconciled with the ultimate objective. I don't think we should go too far in insisting that the down payment under FHA during this transition period be reduced, except and until there is such cutback in the home construction field as to require it to accelerate the production of homes.

I am just going to hurry through some of these things now, because I know that your President will be forewarned now that he should never turn a Member of Congress loose on his feet before as nice an audience as this without some effective restraint upon his time.

Branch Banking

There has been some discussion here in respect to branch banks. You need have no fear from the Federal Government that there is going to be branch banking legislation in conflict with the branch banking laws of any of the several states. That, of course, applies as well to the Federal savings and loan institutions and the building and loan institutions.

I think you are a little alarmed as to what might happen in those fields. We have had our experience with those who insist that the Federal savings and loan associations be given advantages over privately-owned mutual savings banks, and we are conscious of some of the attempts which have been made to collectivize your industry under government domination.

May I go back for a moment to the Banking Act of 1935, in which an attempt was made to socialize America by socializing the lifeblood of the American economy, which is credit. That bill, as it was originally presented, would have compelled every bank in the United States to have come into the Federal Reserve System; otherwise they would not be able to have their deposits insured by FDIC. Then the President was to be given the authority to remove members of the Federal Reserve Board at will, thereby placing effectively under one individual or oligarchy of individuals whom we might set up the loan policy of every bank in the United States, be it commercial or savings, under the complete domination of a Federal bureau or an individual.

We broke that up. But in 1939 the same people who were advocating this collectivization in 1935 introduced another bill. We had hearings for weeks upon it, and I think that it would be most interesting for you to read the minority report on the bill H.R. 6940 of, I think, the 67th Congress, 1939, which became majority thinking on the committee, which, in effect, would have compelled every savings bank, mutual or otherwise, in the United States to have converted to a Federal savings and loan institution or gone out of business.

So we are conscious of the necessity of maintaining the competitive position within the banking fraternity, so that there will not be undue advantage given to one branch to the prejudice of all of the others.

Our objective is to even remove discriminations if they exist. So we are going to study the whole problem. We have restored to industry generally their competitive positions. Even in time of war we had provisions under the distribution of goods provisions of the National Production Act, that a concern's competitive position must be respected, and so, of course, it is in keeping with the announced accepted policy of government that we are not going to do anything to interfere with the competitive position which is created through private enterprise.

I think I can look in my crystal ball and foresee some studies in respect to the coordination of programs between the FHA and the VA, especially in respect to appraisal practices and construction and design standards.

I think it is rather lamentable that you have all this trouble that you do in evaluating the different standards which have been accepted for the guidance of VA as opposed to those which have been accepted for the guidance of FHA. You certainly won't be able to plan far into the future unless we do something along that line to create the basis for your planning.

I don't know how many of you are interested in the holding company legislation, but hearings will be held on that in the Senate. I am not being facetious when I say that when the Senate gets through with their hearings, the House will proceed to write the legislation. Because the only way that that legislation can be written is to follow the same practices which now prevail between the Executive and the Legislative Branches in reconciling all differences possible before the legislation is ever introduced.

We have played around with this holding company legislation now for 15 years to my knowledge. It has been introduced every year, and because of the controversies which have raged around it, it has been put up on the shelf for the incoming Congress to work on. I think something will be done with this holding company legislation, but it will be done by getting all segments of the industry together to sit down with the Federal Reserve and the Treasury and FDIC, when we will narrow as much as possible the area of controversy, and when we have narrowed the area of controversy to the lowest possible size, then legislation will be introduced that will try to reconcile the problems which have not been reconciled within this narrow area in the Committee hearings.

That, to me, is the practical way of approaching that problem, and it is the easiest way, and, being a little lazy-minded, I always seek the easiest way out.

With Cantor, Fitzgerald

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, Calif.—Bernard C. Solomon has become affiliated with Cantor, Fitzgerald & Co., Inc., 232 North Canon Drive.

With Real Property Inv.

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, Calif.—Iris W. Sewell is now affiliated with Real Property Investments, Inc., 233 South Beverly Drive.

With Hamilton Managem't

(Special to THE FINANCIAL CHRONICLE)

DENVER, Colo. — Harold A. Hartsook is connected with Hamilton Management Corporation, 445 Grant Street.

With J. Barth Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—Melville Marx has become connected with J. Barth & Co., 404 Montgomery Street, members of the New York and San Francisco Stock Exchanges.

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Christie-Searight Offer Glenn McCarthy Common Stock at $2

B. V. Christie & Co., Houston, Tex., and George A. Searight of New York are offering an issue of 10,000,000 shares of common stock (par 25 cents) of Glenn McCarthy, Inc. at $2 per share.

Glenn McCarthy, Inc., organized in Delaware in April, 1952, proposes, upon consummation of the new financing, to engage in a general oil business, including the prospecting for, acquisition, development and operation of oil, gas and other mineral properties and interests.

The company has entered into a contract with Glenn H. McCarthy, who is President and a director of the company, under the terms of which the company has been granted the right to direct and control operations for the exploration and discovery of oil and gas on approximately 970,000 acres covered by a lease granted Mr. McCarthy by the Republic of Bolivia and has agreed to cause the performance of certain of Mr. McCarthy's obligations under such lease.

Glenn McCarthy, Inc. estimates that during the first year of its operations in Bolivia the costs of meeting McCarthy's obligations under such lease contract will amount to $1,500,000, which amount includes among other items the cost of drilling rigs and other equipment and supplies necessary to operate in that country, transportation charges, geological and geophysical operations and exploratory drilling and development of portions of the leased area.

The company has no existing plans for the immediate acquisition of any specific properties in the United States or Canada. It is estimated, however, that during the first year of its operations in these countries it will spend, in the following order of priority, approximately $1,100,000 for the acquisition of leases, $475,000 for geological and geophysical work and $3,100,000 for the drilling of exploratory wells.

Initially, part of the general funds of the company will be invested in short-term United States Government and/or municipal securities.

SITUATIONS WANTED

Situation Wanted

Cashier-Assistant Trader desires to connect with small member or over-the-counter firm, to assist in developing trading in unlisted securities. Have contacts, and apprised of special situations. Experienced in handling of securities and brokerage office procedure. Prefer placement in city, but may relocate outside of city for compensating salary. Box W 1029, Commercial & Financial Chronicle, 25 Park Place, New York 7, N. Y.

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Trader, order clerk, salesman, retail and institutional. Eighteen years' experience own firm. Thoroughly experienced in all phases of the investment business. Capable managing or opening branch offices. Highest references. Box S1021, "Commercial & Financial Chronicle," 25 Park Place, N. Y. 7.

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Gentleman with 25 years' experience in over-the-counter securities field desires position with New York City or New Jersey firm as a salesman. Box A1022, "Commercial & Financial Chronicle," 25 Park Place, N. Y. 7.

DIVIDEND NOTICES

AMERICAN & FOREIGN POWER COMPANY INC.

Two Rector Street, New York 6, N. Y.

COMMON STOCK DIVIDEND

The Board of Directors of the Company at a meeting held October 23, 1953, declared a dividend of 15 cents per share on the Common Stock for payment December 10, 1953 to the stockholders of record November 10, 1953.

H. W. BALGOOYEN,
Vice President and Secretary.

October 23, 1953.

AMERICAN GAS AND ELECTRIC COMPANY

Common Stock Dividend

A regular quarterly dividend of forty-one cents ($.41) per share on the Common capital stock of the Company issued and outstanding in the hands of the public has been declared payable December 10, 1953, to the holders of record at the close of business November 9, 1953.

W. J. ROSE, Secretary.

October 28, 1953.

The American Tobacco Company
INCORPORATED

111 Fifth Avenue New York 3, N.Y.

193rd Common Dividend

A regular dividend of Seventy-five Cents (75¢) per share has been declared upon the Common Stock of The American Tobacco Company, payable in cash on December 1, 1953, to stockholders of record at the close of business November 10, 1953. Checks will be mailed.

Harry L. Hilyard, *Treasurer*

October 27, 1953

ALUMINIUM LIMITED

DIVIDEND NOTICE

On October 20, 1953, a quarterly dividend of fifty cents per share in U. S. currency was declared on the no par value shares of this Company payable December 5, 1953, to shareholders of record at the close of business October 30, 1953.

Montreal JAMES A. DULLEA
October 20, 1953 *Secretary*

Allied Chemical

The following dividends have been declared on the Common Stock of Allied Chemical & Dye Corporation:

Quarterly dividend No. 131 of Sixty Cents ($.60) per share.

Special dividend of Sixty Cents ($.60) per share.

Both dividends are payable December 10, 1953, to stockholders of record at the close of business November 13, 1953.

W. C. King, *Secretary*

October 27, 1953.

Joins Hannaford Talbot

(Special to The Financial Chronicle)

SAN FRANCISCO, Calif. — Arthur L. Larson is now connected with Hannaford & Talbot, 519 California Street. He was formerly with King Merritt & Co.

DIVIDEND NOTICES

United States Pipe and Foundry Company

Birmingham, Ala., October 21, 1953

The Board of Directors this day declared a quarterly dividend of seventy-five cents (75¢) per share on the outstanding Common Stock of this Company, payable December 14, 1953, to stockholders of record on November 20, 1953.

The transfer books will remain open.

United States Pipe and Foundry Company
JOHN W. BRENNAN, *Secretary & Treasurer*

NATIONAL DISTILLERS PRODUCTS CORPORATION

DIVIDEND NOTICE

The Board of Directors has declared a quarterly dividend of 25c per share on the outstanding Common Stock, payable on December 1, 1953, to stockholders of record on November 12, 1953. The transfer books will not close.

THOS. A. CLARK
October 22, 1953 Treasurer

DREWRYS

A dividend of thirty-five (35) cents per share for the fourth quarter of 1953 has been declared on the common capital stock, and the regular quarterly dividend on the 5¾% preferred stock of this company, both payable December 10, 1953 to stockholders of record at the close of business on November 25, 1953.

This is the second successive increase in the dividend during 1953.

Drewrys Limited U. S. A., Inc.
South Bend, Indiana

T. E. JEANNERET,
Secretary and Treasurer

Dennison MANUFACTURING COMPANY

Framingham, Mass.

DIVIDEND NOTICES

Debenture: The regular quarterly dividend of $2.00 per share on the Debenture Stock will be paid Dec. 3, 1953, to stockholders of record Nov. 9, 1953.

"A" Common and Voting Common: A quarterly dividend of 30 cents per share on the "A" Common and Voting Common Stocks will be paid Dec. 3, 1953, to stockholders of record Nov. 9, 1953.

A. B. Newhall, *Treasurer*

109TH YEAR

HOOKER ELECTROCHEMICAL COMPANY

$4.25 Cumulative Preferred Stock Dividend

The Board of Directors of Hooker Electrochemical Company on October 21, 1953 declared a quarterly dividend of $1.0625 per share on its $4.25 Cumulative Preferred Stock, payable December 30, 1953 to stockholders of record as of the close of business December 2, 1953.

Cumulative Second Preferred Stock, Series B Dividend

The Board of Directors of Hooker Electrochemical Company on October 21, 1953 declared a quarterly dividend of $1.05 per share on its Cumulative Second Preferred Stock, Series B, payable December 30, 1953 to stockholders of record as of the close of business December 2, 1953.

Common Stock Dividend

The Board of Directors of Hooker Electrochemical Company on October 21, 1953 declared a quarterly dividend of Fifty Cents ($.50) per share on its Common Stock, payable November 25, 1953 to stockholders of record as of the close of business November 2, 1953.

ANSLEY WILCOX 2nd
Secretary

—From the Salt of the Earth— HOOKER CHEMICALS

DIVIDEND NOTICES

Stauffer
CHEMICALS
SINCE 1885

STAUFFER CHEMICAL COMPANY

DIVIDEND NOTICE

The Board of Directors has declared a dividend of 32½¢ per share on the common stock payable December 1, 1953 to stockholders of record at the close of business November 16, 1953.

Christian deDampierre
Treasurer

SOCONY-VACUUM OIL COMPANY
INCORPORATED

Dividend No. 171 October 27, 1953

The Board of Directors today declared a quarterly dividend of 50¢ per share and an extra dividend of 25¢ per share on the outstanding capital stock of this Company, both payable December 10, 1953, to stockholders of record at the close of business November 6, 1953.

W. D. Bickham, *Secretary*

SEABOARD FINANCE COMPANY

COMMON STOCK DIVIDEND

75th Consecutive Quarterly Payment

The Board of Directors of Seaboard Finance Co. declared a regular quarterly dividend of 45 cents a share on Common Stock payable Jan. 10, 1954 to stockholders of record Dec. 17, 1953.

PREFERRED STOCK DIVIDENDS

The directors also declared regular quarterly dividends of 43 cents a share on $1.72 Convertible Preferred Stock, 53 cents a share on $2.12 Convertible Preferred Stock, and $1.43¾ on the $5.75 Sinking Fund Preferred Stock. All preferred dividends are payable Jan. 10, 1954 to stockholders of record Dec. 17, 1953.

A. E. WEIDMAN
Treasurer

Oct. 15, 1953

SAFEWAY STORES INCORPORATED

Common and Preferred Stock Dividends

The Board of Directors of Safeway Stores, Incorporated, on October 20, 1953, declared the following quarterly dividends:

60¢ per share on the $5.00 par value Common Stock.

$1.00 per share on the 4% Preferred Stock.

$1.12½ per share on the 4½% Convertible Preferred Stock.

Common Stock dividends are payable Dec. 16, 1953 to stockholders of record Dec. 3, 1953. Dividends on the 4% Preferred Stock and 4½% Convertible Preferred Stock are payable January 1, 1954 to stockholders of record Dec. 3, 1953.

MILTON L. SELBY, *Secretary*
October 20, 1953

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.

SUBURBAN PROPANE GAS CORPORATION

REGULAR QUARTERLY DIVIDEND NO. 31 DECLARED

Common Stock—30¢ per share

Payable November 16, 1953 to stockholders of record November 2, 1953.

R. GOULD MOREHEAD,
Treasurer

October 22, 1953

Southern Railway Company

SR — SERVES THE SOUTH

DIVIDEND NOTICE

New York, October 27, 1953.

A dividend of 1¼% (62½¢) per share on 1,200,000 shares of Preferred Stock of Southern Railway Company of the par value of $50. per share has today been declared, payable December 15, 1953, to stockholders of record at the close of business November 16, 1953.

A dividend of sixty-two and one-half cents (62½¢) per share on 2,596,400 shares of Common Stock without par value of Southern Railway Company has today been declared out of the surplus of net profits of the Company for the fiscal year ended December 31, 1952, payable December 15, 1953, to stockholders of record at the close of business November 16, 1953.

J. J. MAHER, *Secretary*.

UGI The United Gas Improvement Company

DIVIDEND NOTICE

A quarterly dividend of 45c per share on the Common Stock, par value $13.50 per share, has been declared payable December 22, 1953 to stockholders of record December 4, 1953.

A quarterly dividend of $1.06¼ per share on the 4¼% Preferred Stock has been declared payable January 2, 1954 to stockholders of record November 30, 1953.

Johns Hopkins, Treasurer
Philadelphia, October 27, 1953

YALE & TOWNE

DECLARES EXTRA DIVIDEND

50¢ PER SHARE

On Oct. 22, 1953, an extra dividend No. 262 of fifty cents (50¢) per share was declared by the Board of Directors out of past earnings, payable on Nov. 23, 1953, to stockholders of record at the close of business Nov. 6, 1953.

F. DUNNING
Executive Vice-President and Secretary

THE YALE & TOWNE MFG. CO.
Cash dividends paid in every year since 1899

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Washington ... And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C. — Two big factors can change the frame of the Administration's tax policies at the next session of Congress. Both factors, unfortunately, are big unknowns at this time. The final decision may not be reached until January or perhaps later.

One of the big unknowns is the prospective size of the new military program. Another is the outlook for business.

If the Administration comes to think that business is worsening, it is expected to get actively behind a sharp tax reduction program. With taxes now the highest in history, tax reduction should prove to be a most effective tool to counter deflation, for it would release to taxpaying consumers so much more income than tax relief has made available in past business set-backs, notably that of the 1930s.

On the other hand, if the Administration should finally decide that the supposed Russian advances in atomic and H-bomb weapons must be countered with a new and additional defense program, the outlook would be different. In such a case, there would be an assurance of a new upward surge in government spending, and of business spending to prepare for the new and added program of defense.

If there is to be a new and additional military program, and with it a covert assurance of no deflation, then the Administration may be expected to seek a substantial net increase in tax revenues so as to diminish as far as it can the consequent budgetary deficit.

There is, however, a third alternative. This is that the present outlook, or status quo, may prevail when the time of decision comes.

A continuation of the present outlook presupposes only "serial adjustments" in business conditions. One or another industry might find some downtrend, but the whole volume would remain strong. The status quo alternative — the one now used in thinking and planning—also assumes that if there seems to be a need for modifying the defense program because of Russian advances, this will be done by adjustments which will not boost actual fiscal '55 spending beyond the presently-agreed, if tentative level, of $40 billion.

Some facets of the present defense program would be cutback to make room for new things such as radar interception gear, fighter-interceptors, or perhaps some additional heavy bombers to encourage the Russians to fear retaliation.

Naturally the more conservative members of the Eisenhower Administration hope ardently that this will be the response to the Great H-Bomb Scare of 1953, and that there will not be a new and additional defense program built on top of the existing program.

Concentrate on Saving Expiring Taxes

For the present year a legal deficit of $3.8 billion is forecast. The Administration is committed, it is said, to allowing the Excess Profits Tax and the second income tax boost of 1951, to die on schedule, without seeking **substitute taxes.** This is made clear for the first time.

On an annual basis these two taxes would lose $5 billion, but for fiscal 1955, because payments on expiring taxes will slop over into the new fiscal year, the net revenue loss for '55 would be $3.5 billion. If spending for '55 were to remain at $72.1 billion, then the last officially forecast deficit of $3.8 billion for the current year would be increased for '55 by $2.3 billion, or a total "administrative budget" deficit of $7.3 billion and a **cash deficit** of around $4 billion.

However, assuming the status quo alternative, officials naturally hope to come up with some more substantial results in their steady campaign of expenditure cutting. Guesses as to the prospective expenditure-cutting come out to give '55 a total expenditure rate—still assuming the status quo—of between $68 and $70 billion.

Under such a relatively-hopeful outlook there could be a legal deficit in the neighborhood of $3 billion and an actual cash surplus of around $1 billion, but this is the maximum of optimism.

So if there is no business setback and if the tub-thumbers for a brand new and expensive new defense program do not have their way, there is seen a possible element of progress in the campaign toward getting the budget toward a balance. This is, of course, a small progress, amounting to at most not over a billion dollars less than the prospects officially forecast for the current year (but no absolute progress unless expenditures can be cut to $68 billion).

However, it would mean about holding the line in spite of the cancellation of $3.5 billion in revenues from expiring taxes.

It is for this reason that officials are expected to fight so ardently for the retention of the higher rates of corporation income and excise taxation which, unless renewed by Congress, will expire at midnight next March 31.

Congress Will Oppose

The situation as to these higher rates of taxation in all likelihood will be similar to that which operated around the expiring Excess Profits Tax. The Administration assumed the fiscal position that bad as was EPT, the loss of revenues to the Treasury would be worse. The Administration probably will assume that even though the present excises on luxuries and the 52% corporation tax rate are bad, the prospective deterioration in the Treasury's position from their dropping down to lower rates would be the worse of the two evils.

Last year the Administration took the position that its judgment of the politics of taxation also was superior to that of the Congressmen pressing for the ending of EPT. This time the Administration probably can be expected to take a similar position. In other words, the Administration will argue that it is bad politics for Congressmen to allow corporations and luxury items lower taxes at the expense of a greater deficit, and that all good Republicans coming to the aid of their party should vote to continue these higher rates.

As last year, in the final wash the official GOP leadership probably will back this Administration position while other influential Republicans below the rank of Congressional leadership will oppose.

Congress Less in Control

There, however, the analogy between 1953 and 1954 probably will end. The members of the House in the GOP ranks are in something of a panic. They are less likely to go down the line for these boosts than they did for EPT in 1953.

A good many will feel that in the light of the political realities, the Republicans should place primary emphasis upon getting GOP members reelected, and secondary emphasis upon fiscal soundness.

Furthermore, the tax-cutting impulse will have in the 1954 session the advantage of the initiative, which it did not have in the 1953 session. Mr. Eisenhower promised to submit an overall revision bil. That such a bill is pending will provide numerous opportunities for the tax cutters to offer amendments. If there were no such bill up for consideration, the leadership might have a better chance of throttling tax cuts beyond those approved by the Administration.

Calls for Deal

In the light of this inherently weak tactical situation of the Administration in trying to assert budgetary soundness, a deal with Congress would seem to be called for. Under such a deal, if made in advance, the Administration might sound out genuinely representative opinion as to how much could be saved in revenues if so much was lost in such and such way in tax cuts.

Otherwise — without strong Administration backing for some cuts, Congress may simply take advantage of its tactical situation, which is, it is repeated, that it must be induced to take affirmative action to extend any expiring higher rates of tax if they are to be extended, and it will have the further opportunity to cut when the overall revision bill comes on the floor.

However, it is not believed that the Administration has thus far become impressed with such an outlook.

Seeks Start On Major Tax Reforms

Finally, another feature of the tax outlook is that the Administration definitely desires, it is said, to make some substantive reforms as a part of the overall revision.

Thus, it is reported that the Administration would like to make some start in a better deal on depreciation. It would also like to make a small beginning toward ending double taxation of corporation income.

Just what chances these two projects will have in the light of all the uncertainties, cannot be forecast at this time.

Machine Tool Builders Want Release From Order

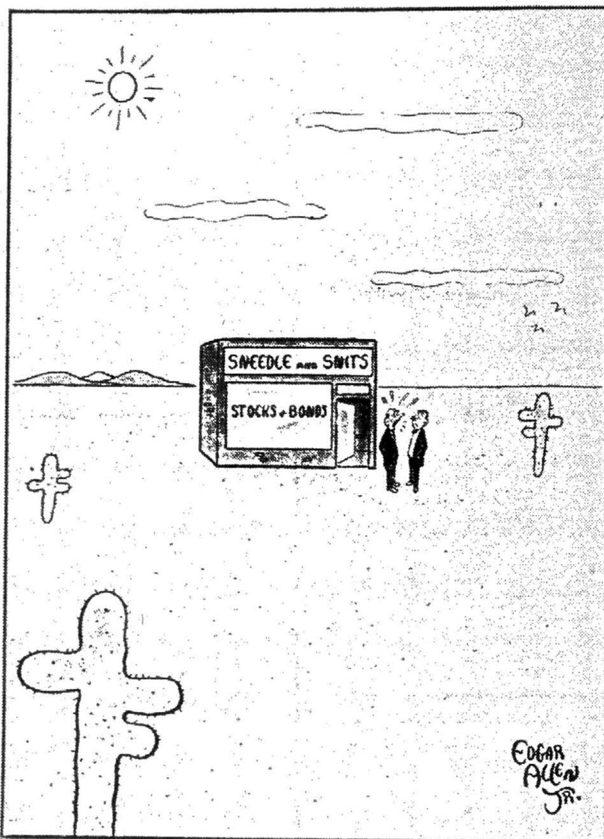
Despite the fact that the volume of new orders for the machine tool building industry is on the decline, the government still insists upon its order that 60% of the industry's products shall be delivered for defense use. Only 40% can be delivered to non-defense users.

The industry is petitioning for a raising of the percentage of its output which can go for civilian use. If the proportions could be changed the industry would view this as promoting a greater stability.

While officials are said to be sympathetic to the idea, they have not indicated whether they will change the order.

(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



"Okay, wise guy—so we're out of the high rent district —now what?"

Atwill & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

MIAMI BEACH, Fla. — Paul J. Bauer is now with Atwill and Company, 605 Lincoln Road. He was previously connected with Blair F. Clavbaugh & Co.

Business Man's Bookshelf

Bargaining — Paul L. Poirot — Foundation for Economic Education, Inc., Irvington-on-Hudson, N. Y. (paper). No charge for single copy; quantity prices on request.

Commonwealth and the United Nations—Lionel Gelber—Information Secretary, Canadian Institute of International Affairs, 230 Bloor Street, West, Toronto 5, Ont., Canada. (paper), 30 cents.

Mainspring of Human Progress—Foundation for Economic Education, Inc., Irvington-on-Hudson, N. Y. (paper), $1.50; (cloth), $2.50 (quantity prices on request).

New Force in Corporate Growth, A — Bertrand W. Hall — Lind Brothers, 121 Varick Street, New York 13, N. Y. (paper), $1.00.

Ontario Mining Association Report of Directors 1952-1953—Ontario Mining Association, 320 Bay St., Toronto 1, Ont., Canada (paper).

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