ESTABLISHED 1839

# The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Volume 179 Number 5290 New York 7, N. Y., Thursday, January 14, 1954 Price 40 Cents a Copy

EDITORIAL

## As We See It

Final appraisal of the 1954 platform of the Eisenhower Administration must obviously await more explicit delineation of programs. Only broad outlines and the general tone of the President's thinking on current public questions are revealed in the State of the Union message, and it would be unwise to undertake final judgment upon more specific proposals contained in more recent messages until it is possible to see more clearly how they combine with other parts of the general program not yet fully revealed.

It is, of course, clear enough that the President has chosen the "middle road" in the sense that what he would like to have Congress do in the months ahead fully pleases neither the New Deal-Fair Deal wing of either party nor the adherents of traditional American concepts of proper or wise public policy. Doubtless both of these elements—usually labeled the extreme left and extreme right wings—will be much inclined to view the President's menu taken as a whole as neither fish nor fowl nor good red herring, although doubtless each will find bits and pieces more or less to their liking.

The disquieting New Deal-Fair Dealish tinge of the President's State of the Union deliverance is relieved here and there in important respects. He is obviously not a slave to the idea of spending for spending sake or even indifferent to budgetary considerations. He is apparently an advocate of sundry measures which must inevitably cost the taxpayer large sums of money—funds which really ought to be left in the hands of the individuals and corporations for such lawful use as they see fit to make of them. At the

Continued on page 36

## Our Investment Abroad

By AUGUST MAFFRY*

Vice-President, Irving Trust Company
Former Vice-President and Economic Advisor, The Export-Import Bank

**Mr. Maffry traces course of United States investment in foreign countries; pointing out heydey was in 1920's, with foreign market's collapse in 1928, and virtual cessation after 1930—causing severe shock to world economy. Holds that although foreign countries can do much to make their securities attractive to American investors, the strong inducements needed from the American side, as in area of taxation, will probably be withheld. Concludes amount and character of American direct investment abroad will not differ greatly from period since last war.**

### Definitions and Limitations

In what follows, conventional definitions are used. *Direct investments* are those which involve a significant element of ownership, control and management. In the language of economics, they are entrepreneurial investments. Although such investments may be made in theory either by corporations or individuals, practically all direct investment in foreign countries of American capital has been investment by corporations. Furthermore, in American experience the preponderance of direct investment abroad in terms either of number of investments or amount of capital involved is fully controlled investment in foreign branches and foreign affiliates of domestic corporations.


August Maffry

*Portfolio investment* is, on the contrary, noncontrolling investment or, to be precise, investment which involves no important element of ownership, control or management. It may consist either

Continued on page 36

*A paper presented by Mr. Maffry before the Annual Meeting of the American Economic Association; Washington, D. C., Dec. 29, 1953.

## The Business Outlook

By THEODORE J. KREPS*

Graduate School of Business, Stanford University

**Dr. Kreps, though stressing the impact of sentiment and forecasts on the course of business, points out well advertised recessions rarely happen. Predicts, however, unemployment may reach four million some time during 1954, provided there be no war. Says failure to carry through less than President Eisenhower's economic program would be definitely "bearish." Looks also for cyclical decline in private expenditures, particularly in capital outlays, but contends a catastrophic depression cannot occur, and lists as an encouraging factor a number of healthy props under the economy that did not exist in 1929.**

I

### Overproduction of Bearish Forecasts a Bullish Factor

To a professor the business outlook is as complicated as the forecasts are numerous. He sees dozens of contradictory factors at work and hundreds of possible combinations and permutations of those factors in the future. Many are difficult to measure, if not immeasurable. Is forecasting possible? What rational filiation can possibly exist in the composite succession of business events? Especially so, when the forecasts themselves are not separate from the business outlook, but an integral part of it. Unlike the predictions of a sun eclipse which have no impact whatsoever on the course of the sun, business forecasts, particularly if overwhelmingly in one direction, may profoundly influence the course of business. They sometimes help to bring on the outcome predicted. If everybody is convinced that commodity prices are going up (as the business community is disposed to be when there


Theodore J. Kreps

Continued on page 32

*An address by Dr. Kreps before the Los Angeles Chamber of Commerce, Los Angeles, Calif., Jan. 12, 1954.

**ANNUAL REVIEW AND OUTLOOK ISSUE NEXT WEEK—The "Chronicle's" Annual Review and Outlook Issue will appear next week and, as in former years, will include personal views of Leaders in Industry, Trade and Finance on the outlook for their own businesses and the nation's economy in general during 1954.**

# The Security I Like Best

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

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

### This Week's Forum Participants and Their Selections



FRANK M. CRYAN
Senior Partner, Frank M. Cryan & Co., New York City

**Claude Neon, Inc.**

The experienced private investor and the professional financial analyst have one investment objective in mind at all times . . . each is seeking constantly for what is generally defined in Wall Street as a "growth situation."


Frank M. Cryan

Claude Neon, Inc. reveals a growth situation during the past five years almost without parallel in American industry. The following will back up that statement in every sense of the word.

A study and analysis of over 1,100 individual companies engaged in every conceivable phase of industrial enterprise show that not more than 50 companies of the 1,100 studied were able to demonstrate a comparable record of growth to that of Claude Neon on the basis of our standards of comparison.

For comparison of Claude Neon's growth during the past five years, we have selected nine companies engaged in one or more of the same types of operations as is Claude Neon, Inc., and both the dollar figure and percentage changes of this comparison are shown in the accompanying table. Net Sales for the nine companies shown in 1952 were 171% of 1948, while net income in 1952 was 121% of 1948. Claude Neon, Inc. made a far superior showing, as may be seen from its percentages of 299% and 587% respectively.

It should be apparent to the reader that growth is possible in the case of an individual company, regardless of the size of its operations as measured in dollar results, and the comparison of growth with leaders in general industry and with companies with similar operations leads to the conclusion that Claude Neon presents a growth situation almost without parallel.

Changes in Claude Neon management, together with a change in operating policies by the new management are responsible for the phenomenal growth. During the past five years under the new aggressive management, many previous activities of Claude Neon have been eliminated, and activities concentrated in the electronic, home appliance and air conditioning fields.

**Five-Year Record of Progress**

Over the five years 1948-1952, because of a concentration in these fields and close supervision of operations, the management achieved the following results (dates in all cases July 1, 1953 vs. July 1, 1948):

(1) Monthly Net Sales averaged $1,030,000 over the first six months of 1948, and increased to an average of $3,630,000 over the similar period 1953, or a 252% increase of sales during the five years.

(2) Net sales over the five-year period totaled over $109 million. On an annual basis and progressively stated, net sales in millions were $12.1 in 1948; $10.4 in 1949; $14.8 in 1950; $20.9 in 1951; $36.0 in 1952; **and in 1953 are estimated to approach $50.0 million.**

(3) Over the five years 7/1/48-1953, the company carried over to earned surplus a total of $7.3 million, or 6.7%, of total Net Sales for that period. That figure is after all deductions, including Federal Income tax and Minority Interest.

(4) As of June 30, 1948, total assets were at $15.3 million and had increased to $28.2 million as of June 30, 1953, a dollar increase of $12.9 million, or some 85%.

(5) Quick current assets arose from $2.2 million on the same date in 1948 to over $10.7 million in 1953, an increase of $8.5 million, or almost 400%.

(6) In comparison with the preceding figures, quick current liabilities rose from $2.2 million to $6.1 million, or only 179%. The net result showed an increase in quick current assets as of June 30, 1953 in the amount of $4.6 million as against a net liability of $17,000 on June 30, 1948. During this period, other important achievements were accomplished, including a reduction in investments and advances of $2.8 million, reduction in fixed assets of $622,000, and a reduction in long-term debt of $1.8 million. As a result, on June 30, 1953 the company carried a balance in the form of earned surplus totaling $4,322,131, as compared with $159,534 on June 30, 1948.

The overall result today is that Claude Neon, Inc. is in the strongest financial position in its history.

**Fields of Activity**

Present activities are concentrated in the electronic, home appliance and air conditioning fields. In the field of electronics, its principal products are electronic computers, gunfire control apparatus, gyroscopes, industrial electronic devices, radio and television broadcast equipment, quartz crystals, and marine radio telephones. In the electronic computer field, the Reeves Electronic Analog Computers are reputed to have outsold all other electronic computers made by other manufacturers combined. This computer ranges in price from $35,000 to $125,000, and sales of same in the future will be highly important to Claude Neon, Inc. The company's electronic home appliance business has been increasing steadily, and these include the Waring Blendor, the Waring Steam Iron and Durabilt line. Through Anemostat Corporation, activities in the air conditioning field are rapidly increasing. The figures for that company are not included in the company's consolidated statement, but it is estimated that the sales of air conditioning equipment for 1953 will approach a new high of around $5 million. Sales in all divisions have shown a constant and consistent increase.

An important factor in Claude Neon, Inc. is its Research Department. Among approximately 4,000 individuals employed by the company, some 400 are rated as top engineers, mathematicians, scientists and physicists, while 50 of the 400 are rated among the top in all the world.

Diversifications in Claude Neon's operations in the electronic, home appliance and air conditioning fields, supported by its engineering research departments, are elements that we believe point to the continued success and growth of Claude Neon.

**Earnings and Finances Greatly Improved**

Per share earnings have increased each year from 19 cents in 1948 to $1.02 in 1952. Working capital is up nearly $5,000,000 from June 30, 1948 to June 30, 1953, while total assets increased in the same period from $15,300,000 to $28,200,000. The company is now in the strongest financial position in its entire history.

As has been pointed out and on the basis of comparative results, Claude Neon has achieved an almost unparalleled record of growth and general progress over the past five years.

This growth should continue and expand in the future since the company is engaged in three of the most rapidly growing industries in American enterprise, namely, the electronic . . . home appliance . . . and air conditioning fields. The company holds a favorable position in all three industries.

Such growth and progress is the result of an extremely keen and alert management, backed by unsurpassed research facilities and a closely knit organization.

The directors of Claude Neon evidenced their faith in the company's future by recently declaring two quarterly dividends of 10c each plus a 5% stock dividend.

I believe the present opportunity of being able to purchase the common of Claude Neon under $5 per share offers an excellent buying opportunity for the alert investor who desires to participate in the future growth of a company which has already es-

*Continued on page 41*

COMPARISON 1952 vs. 1948
(In Millions of Dollars)

| | Net Sales 1948 | Net Sales 1952 | Net Sales % 1952 of 1948 | Net Income 1948 | Net Income 1952 | Net Income % 1952 of 1948 |
|---|---|---|---|---|---|---|
| 1. Philco Corp. | $275.4 | $367.0 | 133% | $10.5 | $11.5 | 104% |
| 2. Radio Corp. | 356.9 | 690.6 | 191 | 24.0 | 32.3 | 135 |
| 3. Int'l Business Mach. | 162.0 | 333.7 | 206 | 28.1 | 29.9 | 106 |
| 4. Carrier Corp. | 54.4 | 107.7 | 196 | 2.7 | 4.5 | 266 |
| 5. General Electric | 1,623.0 | 2,624.0 | 162 | 123.8 | 151.7 | 122 |
| 6. Sunbeam Corp. | 41.1 | 66.4 | 160 | 5.8 | 6.1 | 106 |
| 7. Minn. Honeywell | 57.6 | 165.7 | 298 | 5.9 | 9.1 | 154 |
| 8. DuMont Lab. | 28.9 | 76.1 | 254 | 2.7 | 1.4 | 52 |
| 9. General Instrument | 14.0 | 30.4 | 215 | 0.4 | 1.3 | 302 |
| Average | $290.4 | $495.7 | 171% | $22.7 | $27.5 | 121% |
| 10. Claude Neon | $12.1 | $36.0 | 299% | $0.41 | $2.6 | 587% |

# Taxation, Incentives, And Financial Capacity

By J. KEITH BUTTERS*

Associate Professor, Graduate School of Business Administration, Harvard University

Consultant to U. S. Treasury Department

**Dr. Butters maintains economy will not suffer serious long-range damage even if national defense and fiscal stability require continuation of current high level of tax rates for another several years. Asserts tax structure has only relatively limited and specialized impact on basic incentives motivating private economy. Cites primary importance of defense from aggression from abroad.**

During considerable portions of the last decade several of us at the Harvard Business School have been engaged in an intensive series of studies on the effects of taxes on business and investor incentives and decisions. The objective of this paper is to take a broad look at these studies, and at related research in which we have been engaged, and to try to summarize the over-all findings and generalizations which characterize these studies as a whole.[1] At a broad level of generalization, then, what can be said about the findings of these studies? I shall first simply enumerate these findings in order to give direction and focus to the later discussion. The evidence underlying them will be developed in more detail in the body of the paper.

J. K. Butters

### I

### Over-All Effect of Taxes

The first, and most significant, finding is that the empirical evidence of these investigations substantiates none of the extreme charges that are frequently made concerning the harmful effects of taxation on the economy. It is often alleged, for example, that the heavy tax burdens which have been imposed on the American economy for the last 10 to 15 years have destroyed or seriously impaired the basic incentives of individuals to work and their willingness and capacity to save and invest. It is also claimed that taxes have prevented new enterprises from being formed on an adequate scale; that they have made impossible the expansion of existing enterprises; and that they have caused such large numbers of independent businesses to be sold out or merged with larger companies as to affect significantly the degree of industrial concentration in the country.

While there is some factual foundation to all these charges, the weight of the evidence uncovered in this series of researches tends to minimize rather than to stress their importance. If a general statement has to be made in flat unqualified terms, the striking fact is that, by and large, the tax structure appears to have had only a relatively limited and specialized impact both on the basic incentives which motivate the private economy and on the structure of this economy. The effects of the tax structure on the aggregate levels of employment and real income realized over the last 10 to 15 years have been even more limited, as is obvious from the record levels achieved in both employment and income during this period.

### Restrictions on Financial Capacity Greater Than on Incentives

To the extent that the tax structure has impaired the performance of the economy, our data point consistently to the conclusion that it has done so much more by restricting the financial capacity of key groups in the economy than by impairing the incentives of these groups. This conclusion holds especially for the effects of taxes on the rate of expansion of business enterprises, particularly of small companies with promising growth prospects. It also applies, though perhaps not to such a pronounced degree, to the effects of taxes on the flow of venture capital from private individuals to business enterprises. Moveover, in other areas where the disincentive effects of taxes have been alleged to be powerful—such as work incentives, the formation of new enterprises, and the sale, merger, or liquidation of established companies—our findings have tended

*Continued on page 24*

*An address by Professor Butters before the Annual Meeting of the American Economic Association, Washington, D. C., Dec. 29, 1953.

1 Specifically, this paper is based mainly on the data obtained in the study of the *Effects of Federal Taxes on Growing Enterprises* by John Lintner and me and on the three volumes in which I participated as author in the series of studies conducted through the Harvard Business School under a grant from the Merrill Foundation for Advancement of Financial Knowledge. I wish to acknowledge my indebtedness to my coauthors in these studies, especially Professors Lintner and Lawrence E. Thompson, with whom I have worked most closely.

I have also attempted to take full account of the findings of the other four volumes in the Merrill Foundation series, and in addition I have benefitted from discussions with Professor Lintner concerning the research which he is currently doing on the subject of profits under a grant from The Rockefeller Foundation.

Professors Lintner and Thompson have read this article in manuscript and have made helpful suggestions for its improvement. They are in general agreement with the findings expressed in it. My other colleagues who participated in the Merrill Foundation series have not read the manuscript and should not be regarded as being in any way committed by the views here expressed.

# INDEX

### Articles and News



### Regular Features



*No Canadian article this week.

Published Twice Weekly

**The COMMERCIAL and FINANCIAL CHRONICLE**

Reg. U. S. Patent Office

WILLIAM B. DANA COMPANY, Publishers
25 Park Place, New York 7, N. Y.
REctor 2-9570 to 9576

HERBERT D. SEIBERT, Editor & Publisher
WILLIAM DANA SEIBERT, President

Thursday, January 14, 1954

Every Thursday (general news and advertising issue) and every Monday (complete statistical issue — market quotation records, corporation news, bank clearings, state and city news, etc.).

Other Offices: 135 South La Salle St., Chicago 3, Ill. (Telephone STate 2-0613); 1 Drapers' Gardens, London, E. C., England, c/o Edwards & Smith.



Reentered as second-class matter February 25, 1942, at the post office at New York, N. Y., under the Act of March 8, 1879.

**Subscription Rates**

Subscriptions in United States, U. S. Possessions, Territories and Members of Pan-American Union, $48.00 per year; in Dominion of Canada, $51.00 per year. Other Countries, $55.00 per year.

**Other Publications**

Bank and Quotation Record — Monthly, $33.00 per year. (Foreign postage extra.)

Note—On account of the fluctuations in the rate of exchange, remittances for foreign subscriptions and advertisements must be made in New York funds.

# No Ground for a 1954 Sharp Recession

By GEORGE C. ASTARITA

Boettcher and Company, Members, New York Stock Exchange
Colorado Springs, Colo.

**Taking issue with forecasters of a 1954 recession, Mr. Astarita discusses the current and prospective situation with reference to: commodity prices; inventories; consumer debts; defense expenditures; and unfilled orders. Concludes, study of the situation does not indicate a forbidding prospect, and contends present high trend of prosperity is not abnormal, but is result of increasing population, redistribution of nation's wealth, and silent workings of technological development.**

This year, at last, most forecasters are predicting a sharp recession or even a depression during the following 12 months. Again this writer takes issue with the majority opinion. The year 1953 set a peacetime record for business but at the end ran into that "loss of impetus" cited in the writer's last annual forecast, with the result that the economy now finds itself in a mild recession which probably will continue for some months. The year 1954, however, should witness a volume of business only moderately lower than that for 1953, and again one can guess that security prices may follow the pattern of 1953 with the possibility of new high prices, should the confidence factor return to financial markets.

George C. Astarita

Primarily, pessimistic predictions are predicated upon declining commodity prices, rising inventories and personal debt, receding defense expenditures and a reduced backlog of unfilled orders. These factors will be analyzed for the purpose of placing them in proper perspective, but let it be said that all such factors, at any given time, are only high or low or in balance or out of balance depending upon the future course of the economy. If business should continue its present declining tendency for a protracted period these elements could cause trouble; if business should resume its upward course such factors would lose their importance. But now to analyze these danger spots.

Perhaps the most drastic decline and greatest discussion have centered upon farm commodities. It should be realized, first of all, that the percentage of national income garnered by farmers has not proved the same reliable index to business conditions as in past history. Then, too, lower agricultural prices inevitably redound to the benefit of the industrial community. Today the strong financial condition of the farmer and the limited shrinkage permitted in his income minimize the possibility of a major threat to the economy. Because most, if not all, of the price adjustment lies behind, improvement for the farmer should ensue in the future. It seems difficult therefore to become alarmed about farm prices or any other commodity prices which already have probably suffered their major declines.

Inventories are volatile and can change in either direction under both favorable and unfavorable business conditions. Today inventories are high in absolute figures but not excessive as a percentage of business volume. It would seem that the high rate of inventory accumulation enjoyed in recent years will not continue in the immediate future and that possibly a further reduction in the inventory position will take place. By the same token, however, the adjustment should not prove too painful in view of the still large volume of business being transacted. Should any event occur to cause a scramble for goods, the inventory problem would disappear overnight.

Personal debt in the form of consumer credit is another element which appears high historically but well within balance in relation to the present size of the economy. Installment credit has expanded from $11.5 billion in mid-1947 to $27.2 billion in mid-1953, and despite such rapid growth appears in line with the expansion of the economy and population. Total installment debt in 1938-39 amounted to about 10% of national income and today the percentage figure is considerably less. The history of installment payments is a sound one and there appears to be no reason for expecting any untoward events in the future.

### Defense Expenditures

Defense expenditures constitute a misunderstood factor in that actual expenditures are often confused with appropriations. One is current and the other cumulative, and therefore appropriations can be cut while actual expenditures are rising. This is not to say that defense expenditures will not be reduced in 1954 but to the extent they are, taxes should be reduced by at least a like amount and therefore a deflationary gap seems most unlikely. Because total Government expenditures account for approximately 25% of all outlays and cannot be cut substantially, all other factors bearing on the economy do so on only 75% of total business. The defense program is by far the largest element of the economy and because of its continuing nature constitutes a sustaining factor heretofore unknown in economic thinking. Its cost, however, has been fully saddled upon the American people. A true cash accounting would reveal that taxes collected for old age and unemployment insurance have equalled the increase in the public debt for the period between 1947 and 1952. For this reason any mild decrease in defense expenditures should find ready reflection in lower taxes and therefore larger consumer expenditures.

Unfilled orders, for the most part, are a reflection of consumer confidence. They cannot be translated into immediate business and therefore the economy needs unfilled orders sufficient only for the continuance of capacity operations. By all standards, unfilled orders remain exceedingly high despite a recent drop. The decline reflects a more cautious attitude on the part of business and the consumer but in no way jeopardizes the economy. To the extent that such caution may forestall the possibility of a later economic collapse, it should be welcomed.

### A Summary

Add them all up—the problems of commodity prices, inventories, personal debt, defense expenditures, unfilled orders—and the prospect is not forbidding. Capital expenditures probably will again approach the $28 billion record set in 1953. Year after year the experts are confounded by rising capital expenditures. What they forget is that such outlays breed more such expenditures because of the struggle to remain competitively abreast. A case in point is General Motors' recent large financing and Ford's present huge rehabilitation program which in turn have already spurred Chrysler to thinking in terms of new money and the independents to discuss mergers and the interchange of facilities. Today, more so than ever, "the race is to the swift." Residential building should decline somewhat, but total construction may come close to the 1953 record. Automobiles and appliances strike a sour note, but here it should be realized that declines in these categories will mean larger consumer purchases of soft goods and services.

Keep in mind that the present high trend of prosperity is not abnormal, reflecting as it does a dynamic economy brought about as the result of an expanding population, a redistribution of the nation's wealth and the silent workings of technological development. What was abnormal were the depressed conditions of the prewar period, and comparisons with it therefore are misleading. American business will continue to be subjected to fits and starts and irregularities, but that is all part of the growing pains accompanying a progress which seems assured for the future.

If the writer proves correct in his surmise that business will seek moderately lower levels during its period of readjustment in 1954, it might seem that security prices would follow the same trend. Such, however, is not always the case and, as a matter of fact, during recent years security values have many times pursued a course contrary to that of business trends. Today, because common stocks remain historically cheap in relation to all investment yardsticks, chances would seem to favor a strong resistance to any letdown in business. Elimination of old and high cost facilities together with a reduction in overtime wages, introduction of new labor-saving devices and the demise of the excess profits tax should serve to combat in part, at least, the vicissitudes of a more competitive economy. Because over-all dividend payments are conservative, some shrinkage in earnings could occur without a reduction in such payments.

The total valuation of all stocks listed on the New York Stock Exchange is approximately $115 billion. To replace the assets represented by these stocks would probably require a figure some two or three times larger than present valuations. Such gross under-valuation of assets must inevitably, at a future date, lead to an upward reappraisal. This event should be brought about by a return of the confidence factor which, in large part, has been absent from the security markets for more than two decades. If, as seems likely, taxes are to be reduced, made more equitable and designed to promote business incentive, then confidence can be restored to the investor and common stocks in that event could sell materially higher with no increase in either earnings or dividends. The pressure of large investment funds should aid the process. This is the prospect, and the one who waits for an upturn in business to make his commitments may miss the bargains which seem to abound today.

# Business Seen Operating Under Most Wholesome Climate in Two Decades

**J. Luther Cleveland, Chairman of the Board, and William L. Kleitz, President of Guaranty Trust Co. of New York, hold banking situation was stronger in 1953 than was the case for many years and nation has witnessed a salutary movement toward free markets. Laud government's determination to serve national rather than group interests and express confidence on near and long-term economic outlook.**

In their annual report to shareholders for the year 1953, J. Luther Cleveland, Chairman of the Board, and William L. Kleitz, President of the Guaranty Trust Co. of New York, stated that in the past year the "nation witnessed a salutary movement toward the restoration of free markets" and that in coping with any problems that may develop, "business will be aided and encouraged by the knowledge that it is operating in the most wholesome economic climate that has existed in two decades." Against this background, including the government's determination to serve national rather than group interests, the New York bankers declared, the business and financial community is warranted in viewing both the near-term and long-term outlook with confidence.

J. Luther Cleveland William L. Kleitz

The report commented on the banking and business situation as follows:

"The general monetary and banking situation was stronger in 1953 than it had been for many years. In credit, as in other sectors of the economy, the nation witnessed a salutary movement toward the restoration of free markets. In the money market this resulted in a moderate rise in interest rates during the first half of the year, a perfectly natural result of the long-continued increase in debt, and one which should have been allowed to occur long before.

"More recently there has been a decline in interest rates on certain types of open-market investments, partly as a result of additional reserves made available by Federal Reserve open-market operations and partly as a natural consequence of the unusually small seasonal increase in bank credit since the middle of the year. This easing demand for credit is one of a number of developments that are being heralded as signs of a decline in the general level of business activity.

"If this interpretation of recent trends is correct, it is, of course, a major factor in the outlook for banking in 1954. Reduced operating levels in industry and trade, diminishing inventories and easing prices would combine to limit the demand for bank credit. It seems reasonable, however, to expect that any such changes will be moderate unless the business adjustment that causes them is more severe and prolonged than is now generally anticipated.

"In coping with any problems that may lie ahead, business will be aided and encouraged by the knowledge that it is operating in the most wholesome economic climate that has existed in two decades. The Federal Administration has shown that it understands the needs of a free economy, and has taken steps to meet those needs. The reformulation of national policies in such fields as fiscal affairs, international economic relations, agriculture, and labor-management dealings has proved to be much more than a one-year job. Yet in all these fields real progress has been made. The budget has been substantially reduced, and the way has been prepared for further cuts in years to come. Tax policy, foreign-trade policy, farm policy, and labor-management policy are all being intensively studied with a view to early recommendations to Congress. Most important of all, the government has shown its determination to serve national interests rather than group interests. Against this background, the business and financial community is warranted in viewing both the near-term and the long-term outlook with confidence."

# Walter, Woody Admits Three Partners

CINCINNATI, Ohio — Walter, Woody & Heimerdinger, Dixie Terminal Building, announce the admission to partnership of John N. Fuerbacher, John M. Heimerdinger, and Carl A. Muething.

## Melville D. Weingarten

Melville D. Weingarten, partner in Weingarten & Co., New York City, members of the New York Stock Exchange, passed away, Jan. 4.

# Observations . . .

By A. WILFRED MAY

## The Investor Swung to the Left

In hailing President Eisenhower's State of the Union Message as contaning "a great many New Deal recommendations," Mr. Truman seems to this column to have for once risen to valid as well as apt off-the-cuff commentary. For in his messages-of-the-week our Republican leader demonstrates unmistakably how far he, and those of his party willing to follow, are continuing to move away from a recaptured free economy. The reasons therefor—notably vote-hunger—are not germane to this essay, which is concerned with assessing the present and prospective economic climate.

A. Wilfred May

Keynoting the various specifications (and no doubt particularly satisfying to Mr. Truman) was this underlying theme expounded by the President: "In a modern industrial society, banishment of destitution and cushioning the shock of personal disaster . . . are proper concerns of all levels of government"; together with the urgent warning—a la Roosevelt-Truman-Attlee-Tugwell-Keyserling interventionist philosophy—that economic growth cannot be left to "chance," but requires a vast amount of study, coordination, and planning . . . with "a progressive and dynamic program for the welfare of 160 million people."

As one course of implementing such ideology—in an attitude that surely can be fairly characterized as "anti-anti-socialistic"—is the President's recommendation that unemployment insurance be extended to 6½ million workers not now covered; and that the beauties of Welfare State-ism be further distributed by extending old age and survivors' insurance to 10 million not now eligible.

Consistent with such Welfare-ism is Mr. Eisenhower's renewed request for Congressional action to raise the debt limit.

### Anti-Recession-ism

In the recession-depression area of intervention, the President himself, apparently in self-defense against the ever-recurring "do-nothing" charge, now reiterates his lieutenants' reassurances about the anti-depression antidotes on his shelf; listing public works and grants-in-aid among the measures for "economic preparedness." Incidentally, this recurrent soothing from on high prompts the query whether the very promise of anti-recession measures may possibly by itself—through its psychological effect and in advance of any action—suffice to forestall depression ("nothing-to-fear-but-fear" *ad absurdum*).

In the fiscal area, the President's plea to cancel the automatic tax reductions scheduled for April first next, particularly the personal income levies, is disheartening to those relying on the Campaigning-Ike's earnest diatribes for the promotion of individual incentive to reverse us from the brink of socialism. Coming after the White House's "good fight" for deferment of the termination of the generally condemned excess profits tax, this further "stalling" on tax reform, including rates, surely warrants doubts about the Administration's intentions to go whole-hog for free enterprise, tax-wise.

Incidentally, the President's tax policy places him "to the left" even of the Committee for Economic Development, which has been regarded as the Administration's "liberal" influence.

### Middle-of-the-Road Abroad

In the field of foreign aid: the President counter-balanced his declaration that economic aid—with the exception of Korea and some other sensitive areas—can be reduced, with a recommendation to maintain Mr. Truman's Point Four subsidy.

In his messages on farm and labor legislation, the President's recommendations also manifest unmistakably his commitment to the exigencies of political middle-of-the-roadism in lieu of the motivation of the free market—the "needling" assumed by the more extreme Right and Left wings notwithstanding.

In all this, whether by design or not, his appeal lies in the direction of the electorate's tranche comprising the conservative New and Fair Dealers plus the "liberal" Republicans.

Whether this can be successfully consummated is a question of political strategy which this columnist is not qualified to appraise. **But we can say as to its impact on the investor:—it indicates mild discouragement and decline for the near-term future of stock prices, with a subsequent socializing inflation-propelled secular rise in equity prices, not real values, over the very long term—with the extent of that later rise correlated inversely with the effectiveness of the prospective anti-recession nostrums.**



# World's First Space Clock Introduced by Hamilton Watch Co.

**Planetarium official introduces "Mars" timepiece to demonstrate inter-planetary time differentials to aid future space explorers.**

The world's first inter-planetary timepiece, the Hamilton Space Clock, was introduced to the scientific and public press today by its inventor, Dr. I. M. Levitt, Director of the Franklin Institute's Fels Planetarium, Philadelphia, and George P. Luckey, President of the Hamilton Watch Company, sponsors of the project. The reception was held at the Waldorf Astoria Hotel in New York.

Dr. I. M. Levitt

Created to demonstrate the differences between "Earth time" and the time on other planets, the clock simultaneously records the hours, date, month and year on Earth and the planet Mars.

"Of course, the Hamilton Space Clock is still in the experimental stage," Dr. Levitt explained, "but it is important as the first attempt to demonstrate the inter-planetary time differentials a future space explorer must consider when planning journeys into outer space."

After completing a series of astronomical calculations several months ago, Dr. Levitt asked the 62-year-old Hamilton Watch Company, a respected pioneer in the American watch industry, to turn his theory into a working model.

The clock, which holds four dials, divides the Mars year into the conventional twelve months, and those months into days which —on Mars—are 24 hours, 37 minutes, 23 seconds long. The circumference at the face itself indicates Martian time. One dial set into the face records Earth time, while the other two are month-and-year calendars for both Earth and Mars. The face and exposed works are enclosed in egg-shaped amber plexiglass casing which is mounted on a square pedestal with two rectangular brass feet.

The Space Clock theory was conceived by Dr. Levitt because he felt that a clear understanding of the time problems involved in space travel should be a major consideration of those scientists who contemplate inter-planetary expeditions.

## With Francis I. du Pont

(Special to THE FINANCIAL CHRONICLE)

GRASS VALLEY, Calif. — C. Raymond Clinch is now associated with Francis I. du Pont & Co. Mr. Clinch was formerly Grass Valley representative for Conrad, Bruce & Co.

## With Marshall Co.

(Special to THE FINANCIAL CHRONICLE)

MILWAUKEE, Wis.—Eugene C. Wulff is now affiliated with The Marshall Company, 765 North Water Street.

## Bache Co. to Admit

Bache & Co., 36 Wall Street, New York City, members of the New York Stock Exchange, on Feb. 1 will admit Ryder Henry, II to limited partnership.

# The State of Trade and Industry

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

Recovery was noted in total industrial production for the nation as a whole in the period ended on Wednesday of last week as many plants resumed operations following the closings for holiday and inventory-taking in recent weeks. However, total output of the nation's factories and mines was down moderately from the high level of a year ago, with the most pronounced declines in durables.

Lay-offs continued to mount in many lines. This was especially true of consumer durables, farm equipment and textiles. Claims for unemployment insurance benefits held noticeably above a year ago and such claims are mounting, according to a 19-state survey. The United States Department of Commerce's latest official count placed the jobless total at 1,850,000 as of Dec. 12. Since then, government experts estimate, the figure has probably gone above 2,000,000. The increase is particularly noticeable, some labor sources say, because it started from a remarkably low count of 1,200,000 last October. So far, unemployment hasn't approached the level of the last business shakeout in the 1949-50 winter. The number out of work reached 4,700,000 in February, 1950.

In the automotive industry the Chrysler Corp. was scheduled to lay off 7,650 workers on Monday of this week as a result of new production cutbacks. The company gave no reason for the lower production schedules. The Plymouth division will furlough 2,350 employees at its Detroit plant, reducing its labor force there to about 9,000. Also affected by the Chrysler action are part of the workers in its automotive body division, formerly Briggs Manufacturing Co., which makes Plymouth bodies. About 5,300 of a total of 30,000 Detroit workers in this operation will be released.

Although the boom has eased, steel business continues to set a sturdy pace, "The Iron Age," national metalworking weekly, reports the current week. This bellwether industry gives no sign that the economy is headed into anything worse than a moderate decline. A lot of people are somewhat belatedly pointing out that this doesn't seem too unnatural after a record breaking year for most industries.

Steelmaking operations this week are scheduled at 75% of newly revised capacity, unchanged from last week. The industry seems likely to continue at about that pace for the next several weeks. After that, there might be mild improvement, as operations move toward a probable high for the first half in March, it observes.

A number of important steel consumers are alert to the possible influence of wage negotiations on their steel supply this year. Despite the fact that most steel firms must negotiate an entirely new wage contract before June 30, at least two large producers have been assuring their customers that a strike is highly improbable, this trade authority notes.

A strike of course would tighten the market overnight. Since a lot of consumers know this from personal experience, there may be a fair amount of strike-hedge buying of steel if the bargainers get close to contract termination without agreement. Added to usual spring buying upturn, this could make steel business look pretty good during the first half.

If the wage question is settled amicably, the seasonal summer dip in steel business may be deeper this year than it has been since 1949.

A product run-down of the market reflects the comfortable tone of demand. Among the tonnage products, about the only tight items is seamless tubing, this trade magazine states.

Hope for a spring upturn seems based at least in part on simultaneous resurgence of automakers and suppliers, farm equipment makers and manufacturers of air conditioning and refrigeration equipment. Air conditioning gives promise of being the brightest star in the appliance field this year, it points out.

Steel producers are really surprised at the apparent heavy tonnages consumers held in inventory when they decided to reduce their stocks. Even though they now feel sure the inventory

Continued on page 38

# Do Our Wage-Fixing Arrangements Promote Inflation?

By SUMNER H. SLICHTER*
Lamont University Professor, Harvard University

**Professor Slichter supplies key to labor-inflation trend, through its opportunity to hold down labor costs by bolstering employer resistance to union demands. Declares large employers yield too readily to labor's claims, forsaking fight for the consumer. Concludes wage-fixing arrangements tend to raise wages sufficiently to require slow advance in price level; and this has incidental advantage of helping success of our foreign policy.**

## I

It is now more than 20 years since there has been a drop in the annual average of hourly earnings for American industry as a whole. This is the longest stretch of unbroken rises on record since the beginning of the Bureau of Statistics' index of the hourly earnings on non-agricultural workers in 1840. In two periods, from 1860 to 1872 and from 1908 to 1920 the annual averages of hourly earnings have increased steadily for 12 years.[1] There has also been a 25-year period, from 1895 to 1920, when hourly earnings did not fall, but in four years during that time they did not rise. The end of the present advance in hourly earnings is not in sight, at least if the influence of penalty overtime on earnings is excluded.[2]

Sumner H. Slichter

Money wages in the United States have always had a strong tendency to rise. Today the average non-agricultural worker earns as many dollars in an hour as his predecessor earned in two 11-hour days back in 1840. As a result of the rise in prices, the hourly earnings of a worker today will buy only about nine times as much as the earnings of a worker in 1840. Were trends of the last 113 years to continue for another 113 years, the hourly earnings of non-agricultural workers in 2066 would average $35 an hour, but would have a purchasing power of about $14, or $84 for a six-hour day.

The rise in hourly earnings has not been continuous, but there have been only 17 years in the last 113 when the annual average of non-agricultural hourly earnings was lower than in the preceding year. In 18 years there was no change in average hourly earnings, and in 78 there was an increase.[3] The rise of prices, of course, has been much smaller than the rise in money wages, and also less continuous. The index of the wholesale price level has increased a little more than 130%, while the index of hourly earnings has increased more than 16 times that amount.

My present examination of some of the influences that have been determining the movement of money wages in the American labor market does not pretend to be comprehensive. Attention will be directed in the main to the supply side of the labor market. The shifts in supply curves in the labor market are undoubtedly less than the shifts in demand curves. Perhaps that is the reason why there has been a tendency to explain movements in money wages by changes in the demand for labor rather than by changes in supply and demand. In particular, the prolem of inflation has been viewed as a matter of rightward shifts in demand curves. The possibility that such shifts may discourage rightward shifts in the supply curve or may even cause leftward shifts in the supply curve has received little attention. So also have other important influences on the supply of labor.

## II

### Influences on Supply Side

Before we look more closely at what has happened to money wages and prices during the last century, let us examine briefly some of the specific influences on the supply side of the labor market. The history of wages makes it plain, I think, that the individual, unorganized worker in the American labor market has long possessed the capacity to drive a favorable bargain for himself. The books on wages and trade unionism contain a good deal of nonsense about the weak bargaining position of unorganized workers. The fact of the matter is that even before trade unionism became important, the gains of technological progress went in the main to people in their capacity as wage earners rather than to people in their capacity as consumers.

The strong bargaining position of unorganized workers is attributable primarily to two conditions—the ability of workers to withhold efficiency when the wage or working conditions are unsatisfactory, and the unwillingness of employed workers to accept cuts in customary money wages. Workers who feel that their wages are unfair or who fail to receive increases which they regard as fair become less cooperative and more difficult to manage. Employers know that a dissatisfied labor force is inefficient and expensive. That is why there is such a loose relationship between changes in wages and changes in output per manhour and why firms in industries where technological progress is slow raise wages almost as much as firms in which technological progress is rapid.

The unwillingness of employed workers to accept cuts in customary money wages means that as soon as a wage is set, the labor supply curve changes. A gap appears in the curve to the left of the existing wage. Consequently in the labor market when demand curves shift to the left, the price is set, not by what the non-sellers will accept, but by the unwillingness of the successful sellers to accept less than the established wage. Hence, there is equilibrium even though the market has not been cleared. The practical result is that wages do not readily decline when the economy experiences a depression. Only a fairly long and severe depression will make employers willing to risk the strikes that wage cuts might provoke even among unorganized workers. Thus, the mild recessions of 1861, 1867, 1870, 1885, 1888, 1891, 1904, 1908, and 1949 produced no drop in the annual average of hourly earnings, and the mild recessions in 1854, 1900, 1911, 1924, 1927, and 1938 were accompanied by increases in the annual averages of hourly earnings.[4] Even in the relatively severe depression of the nineties, the drop in average hourly earnings was quite small.

I have referred to the loose relationship between the movements of productivity and hourly earnings. Garbarino found a coefficient of rank correlation of 0.6 between changes in output per manhour and changes in hourly earnings among 34 industries during the period 1923 to 1940. But this coefficient relates to ranks only, and there was far more variation in output per manhour than in earnings. The six industries with the largest increases in output per manhour (an average of 226%) had an average increase in hourly earnings of 39%, and the six industries with the smallest increases in productivity (an average of 25%) had an average increase in hourly earnings of 11%.[5]

Among 18 industries for which the Bureau of Labor Statistics has estimated increases in output per manhour between 1939 and 1950, there was no significant relationship between changes in output per manhour and changes in hourly earnings. The coefficient of rank correlation was only 0.2. The six industries with the highest increase in output per manhour (an average of 57.4%) had an increase of 116.8% in hourly earnings; the six industries with the lowest increase in output per manhour (an average of minus 4.1%) had an increase of 111.8% in average hourly earnings.

## III

### Wages and Prices Since 1840

Let us now look briefly at the broad movements of wages and prices since 1840. The time may be conveniently divided into two principal periods of approximately equal length—the first, 56 years in length, from 1840 to 1896, and the second 57 years long, from 1896 to 1953. The first period was in the main a time of falling prices. In 33 out of the 56 years the index of wholesale prices was lower than in the preceding year, and in the year 1896 the wholesale price level reached the lowest point in the last 113 years. In that year, the index of wholesale prices was one-fourth below the level of 1840.

The second period, from 1896 to the present, has been mainly a time of rising prices. In 38 out of the 57 years, the index of wholesale prices averaged higher than in the preceding year, and today the index of wholesale prices is nearly 3.7 times as high as in 1896.

It has been customary to attribute the downward drift of prices during the second half of the 19th century and the upward movement in the 20th century mainly to monetary influences. Such explanations are not satisfactory. Money is a medium through which other influences affect the price level, but changes in the supply of money are not in themselves an explanation of movements of the price level. As a matter of fact, during the latter half of the 19th century the supply of money increased far faster in relation to the current dollar value of the national income than during the first half of the 20th century. Between 1850 and 1896, for example, the money supply of the United States increased by over 15 times; the current value of the national income by about four and one-half times. Consequently, the money supply increased more than 3% for every 1% increase in the current value of the national income.[6] During the second period, largely because of the rise in prices, the money supply increased less than 1.6% for every 1% increase in the national income. It is evident that the increase in the supply of money was far less effective in raising prices in the period 1850 to 1896 than in the period 1896 to 1953.

Why did the enormous increase in the supply of money, far greater than the increase in the current value of the national income, not prevent a drop in prices in the first period, and why did the increase in the supply of money produce a large rise in prices in the second period? The greatest single influence on the price level has been war or the absence of war. The absence of important wars during the last quarter of the 19th century made it possible for the money supply to grow far faster than output without prices being bid up. It was the great frequency of wars during the last 50-odd years (the Spanish-American War, the Boer War, the Russo-Japanese War near the turn of the century, the First World War, the Second World War, the Korean War, and the fear of a third world war) which created every now and then strong preferences for goods as compared to money. The strong preference for goods of money and attempts to shift from holding money to holding goods. I do not assert that there were no other important influences on the demand side of the market. The deliberate use of government fiscal policy after 1933 to create a price rise was a great innovation, but wars have undoubtedly been the strongest influence pushing up prices during the last half century.[7]

The differences between the two periods, however, are not solely explained by the demand side of the market. Important changes have been occurring on the supply side of the labor market. As a result, wages have become increasingly sensitive to rises in prices, moving up more promptly and completely in response to advances in the price level. This is indicated by comparing the movements of prices and hourly earnings in periods of prices. (Table II)

I believe that the recent great gains in trade union membership have made wages more resistant to falling prices, but this cannot be demonstrated statistically. Indeed, a superficial glance at Table II showing the movements of hourly earnings in periods of falling prices might lead to the conclusion that wages have become less resistant to a drop in prices. (Table II)

Such an interpretation of the table would be wrong. The two early periods (1865 to 1871 and 1882 to 1896) when hourly earnings rose most in the face of falling prices were partly periods of cyclical expansion and partly periods of contraction.[8] Furthermore, in the first of these periods, the rise of wages in the face of falling prices was undoubtedly in part a result of the great lag in wages behind prices during the period of the Civil War. All of the more recent periods of falling prices, except the last, were periods of business contraction and in all of them the rise of wages relative to prices compares favorably with the great period of contraction in the 70s. As a matter of fact, the rise of wages relative to prices **per year** in the later periods of contraction (even the great debrought about both the creation

*A paper presented by Professor Slichter before the annual meeting of the American Economic Association; Washington, D. C., Dec. 29, 1953.

1 U. S. Bureau of Labor Statistics, "History of Wages in the United States from Colonial Times to 1928" Bulletin No. 604, pp. 521 and 574.

2 Even the inclusion of overtime earnings in the averages may not cause average hourly earnings in 1954 to drop below 1953. In manufacturing, weekly hours of work have dropped from their recent highs of 41.7 in December 1952 and 41.1 in March 1953 to 39.9 in November 1953, but hourly earnings, including earnings from premium overtime rates, have risen from $1.73 in December, 1952 to $1.75 in March and $1.78 in November.

3 The eighteen years in which there was no change reflect the crudity of the early data. Although the data are too crude to provide accurate measurements of the change between any two years, they undoubtedly give an essentially accurate measure of the direction and the magnitude of the trends.

4 An unchanged annual average may conceal a drop and a rise within the year, but the drop would not be a long one and almost certainly not a large one.

5 Garbarino, J. W., "A Theory of Interindustry Wage Structure Variation." Quarterly Journal of Economics, May 1950, pp. 296-297 and 298.

6 In money supply I include total deposits of all banks (demand and time) and money in circulation. *Historical Statistics of the United States, 1789-1945*, pp. 262, 263 and 274. If figures for demand deposits alone were available for the entire period, it might be preferable to use them rather than total deposits, but the exclusion of time deposits (which include savings deposits) would be debatable.

For national income, I have used for 1850 to 1900 Kuznet's estimates of national income as published in "Uses of National Income in Peace and War", *Occasional Paper No. 6*, National Bureau of Economic Research, p. 38; and from 1900 to 1930 Kuznet's estimates published in Dewhurst's, *America's Needs and Resources*, Appendix 4, p. 696. An estimate of the national income for the 1896 was made by assuming that the rate of change in national income between 1890 and 1896 was the same as the rate estimated for the change in the gross national product between those dates in "Basic Facts on Employment and Production," 79th Congress, first session, *Committee Print No. 4*, Table E 1, p. 11. The gross national product figures, which are expressed in 1944 dollars, were converted into current dollars by the use of index of wholesale prices. For the period 1930 to 1950, estimates of the national income by the Department of Commerce were used after adjustment for the difference between these estimates and that of Kuznets for the year 1930.

The changes in the money supply and in the national income were as follows:

| | Money Supply (millions) (June 30) | National Income (billions) |
|---|---|---|
| 1850 | $306 | $2.2 |
| 1896 | 6,992 | 12.3 |
| 1950 | 190,926 | 219.8 |

7 The Civil War created a strong preference for goods relative to money so that the increase in the money supply for a brief period had a far greater effect on prices than during the rest of the last half of the nineteenth century.

8 In the first period there were 34 months of expansion and 50 months of contraction; in the second, 90 months of expansion and 90 of contraction. A. F. Burns and W. C. Mitchell, *Measuring Business Cycles*, p. 78.

TABLE I

| Period | Rise in the index of wholesale prices | Rise in hourly earnings of non-agricultural employers | Rise in hourly earnings as a percent of the rise in wholesale prices |
|---|---|---|---|
| 1843-1847 | 5.0% | 3.0% | 60.0% |
| 1849-1856 | 14.6 | 8.3 | 56.8 |
| 1860-1865 | 116.7 | 48.7 | 41.7 |
| 1879-1882 | 12.4 | 6.8 | 54.8 |
| 1896-1907 | 40.2 | 29.0 | 72.1 |
| 1915-1920 | 122.2 | 127.2 | 104.1 |
| 1932-1937 | 33.3 | 37.8 | 113.5 |
| 1939-1948 | 108.4 | 113.2 | 104.4 |
| 1949-1951 | 15.7 | 13.2 | 84.1 |

TABLE II

| Period | Fall in wholesale prices | Change in hourly earnings of non-agricultural employers | Rise in index of hourly earnings relative to the index of wholesale prices |
|---|---|---|---|
| **Periods prior to 1896** | | | |
| 1840-1843 | 13.1% | 0 | 15.1% |
| 1847-1849 | 7.4 | + 5.9% | 14.3 |
| 1856-1860 | 11.6 | 0 | 13.1 |
| 1865-1871 | 37.3 | +17.2 | 86.9 |
| 1872-1879 | 30.4 | —14.5 | 23.0 |
| 1882-1896 | 29.7 | + 9.5 | 55.7 |
| **Periods subsequent to 1896** | | | |
| 1920-1922 | 37.4% | —11.2% | 41.8% |
| 1929-1932 | 32.0 | —20.2 | 11.7 |
| 1937-1939 | 10.7 | + 2.1 | 14.3 |
| 1948-1949 | 5.0 | + 4.2 | 9.7 |
| 1951-July1953 | 3.4 | +11.3 | 15.2 |

pression of the 30s) was greater than in the 70s.[9]

## IV

### The Principal Supply Influences

Five principal influences on the supply side of the market have increased the responsiveness of wages to increases in prices and their resistance to drops in prices. They are: (1) the decline in the proportion of the adult population in the labor force; (2) the great drop in the ratio of agricultural employment to non-agricultural employment; (3) the drop in immigration; (4) the growth of trade unionism; and (5) the development of government wage policy.

(1) **The Decline in the Ratio of the Adult Population in the Labor Force.** Part of this decline, namely, the withdrawal of many older persons, has been involuntary. Nevertheless, the proportion of population 10 years of age or over in the labor force, after climbing considerably from 1870 to 1910, dropped substantially in the next 30 years. Had it not dropped, the labor force in 1940 would have been 5.2 million, or 10% larger than it actually was. Since 1940, there has been a small rise in the proportion of civilian population of 14 years of age or over in the civilian labor force. This has been the result of the growing popularity of work among women. Among young men, especially those in the age brackets 20 to 34, the proportion in the civilian labor force has been dropping substantially, at least since 1930. The age group 20 to 34 is especially important to industry because its members are at the peak of their strength and vigor. Had the labor force participation among males 20 to 34 years of age been as high in 1950 as in 1930, the labor force in these important age brackets would have been more than a million or about 6% greater than it actually was.[10]

(2) **The Great Drop in the Ratio of Agricultural Employment to Non-Agricultural Employment.** In 1840 there were about 2.2 persons employed in agricultural for every worker in non-agricultural employment. By 1880 the ratio was one to one, and by 1900 there were 1.6 workers outside of agriculture for every worker in agriculture. Since that time the size of the agricultural labor force has rapidly dropped relative to non-agricultural. By 1930, the number of workers outside of agriculture for every worker in agriculture had risen to 3.9 and by 1950 to 7.6. The sharp drop of the relative size of the agricultural labor force is of great importance in explaining the behavior of wages because agriculture has provided a large reservoir of cheap labor, much of it possessing more than mere rudimentary skill in the mechanical arts.

(3) **The Drop in Immigration.** In some decades, such as the 40s, 50s, and 80s of the last century, net immigration totaled more than 20% of the average size of the labor force during the decade. In other decades, such as the 60s or 70s, net immigration was around one-sixth or more of the average labor force.[11] The first decade of this century, when net immigration was 18.7% of the average labor force, was the last period of large immigration. During the 20s net immigration was only 7.1% of the average labor force, in the 30s there was no net immigration, and in the 1940s immigration was 4.6% of the average labor force. The reason for this drop in immigration is, of course, mainly our immigration law. It means that the economy in periods of expansion can no longer readily attract large quantities of labor from abroad.

(4) **The Rise of Trade Unions.** Unions seem to have had considerable influence for brief periods in some parts of non-agricultural industry in the 19th century, but the sustained influence of unions began with the 20th century. In 1897, union membership was about 3% of non-agricultural employment other than self-employed, managers, and professional workers. The spurt in membership at the turn of the century caused this proportion to rise to over 5% by 1900. By 1910, the proportion was nearly 10% and by 1920 more than 19%. By 1933, however, union membership was down to less than 7% of the non-agricultural labor force exclusive of proprietors, managers, and professional workers. It was in 1933, of course, that unions began to come into their own with powerful aid from the government. By 1940 union membership was about 25% of the non-agricultural labor force, and by 1950, about 40%. Around two-thirds of the workers in manufacturing, and four-fifths in construction, transportation, and mining are organized. Only the markets for agricultural products compare with the labor market in the extent of the arrangements for helping sellers gain favorable terms from their point of view.

(5) **The Development of the Wage Policy of the Government.** Only within the last 30 years can the government be said to have a wage policy, but in recent years the government has become an important influence in the labor market. The immense increase in government purchasing has broadened the opportunities for the government to influence wages. It exerts its influence through the Fair Labor Standards Act, the Bacon-Davis Act, the Walsh-Healey Act, through the direct purchase of labor, and through large construction projects which the government is financing, some of them in areas where wages have been relatively low. In some instances the influence of the government on wages has been quite unintentional, but in most instances it has been intentional. Except for the period of the Second World War, the influence of the government has been designed, in the main, to help the sellers of labor get a better price rather than to help the buyers keep the price down. This has been true in spite of the fact that the government itself is a large purchaser of labor.

## V

### Unions' Influence on Wages

A number of economists have expressed doubts that trade unions, despite their rapid growth, have had much influence on money wages. Professor Friedman, in his stimulating discussion on "The Significance of Labor Unions for Economic Policy" has expressed the view that "laymen and economists alike tend . . . to exaggerate greatly the extent to which labor unions affect the structure and level of wage rates."[12] Professor Friedman goes so far as to assert that the United Automobile Workers and the Union Steel Workers "were responsible for preventing the wages of their members from rising as much as they would in the absence of the union."[13]

Professor Friedman's views are

Continued on page 29

9 It will be observed that neither of the two tables includes the period 1907 to 1915 or 1922 to 1929. These are best regarded as periods of stability. There was a brief recession in 1908 and a recovery in 1909. Between that year and 1915 the price level moved up and down by small amounts with virtually no net change. The same is true of the period 1922 to 1929.

10 In 1950 the male labor force 20 to 24 years of age, according to the census, was 4,490,000, and the male labor force 25 to 34 years of age was 10,664,000. The participation rate of 1930 would have produced a labor force of 4,906,000 among males 20 to 24 years of age, and 11,344,000 among males 25 to 34 years of age in 1950.

11 The decade of the nineties was an exception. In this period net immigration was only 8.7% of the average size of the labor force.

12 Wright, David McCord (ed), *The Impact of the Labor Union*, p. 204.
13 *Ibid.*, pp. 210, 217-228.

# People Will Have Money To Buy in 1954

By ROGER W. BABSON

**Mr. Babson, in condemning "loose talk" about rise in the cost of living and ability of people to buy, furnishes figures which show that in 1953 consumer prices have risen less than 2%, whereas hourly earnings in manufacturing industries have risen 8%.**

There has been a lot of loose talk about the rise in the cost of living and the ability of people to buy. Many readers have asked for dependable facts. Here are the official Government figures.


Roger W. Babson

To a degree, whether people have money to buy depends on what they spend for their daily necessities. Living costs, without question, have been flattening out. From Jan. 1, 1952, to date, consumer prices have risen less than 2%. This compares with a rise of 18% in 1946, a 6% jump in 1950, and a 4.5% push in 1951.

What makes these figures even more meaningful is the fact that, while living costs have risen less than 2% since January, 1952, hourly earnings in all manufacturing industries have risen about 8% during that time. To have held prices down while wages have gone up is a great achievement on the part of manufacturers and merchants.

### Fewer Now Employed

If people are to have money to buy, they must have jobs. Although our labor force normally increases by about 700,000 persons a year—for whom jobs must be provided—1953 figures show very little change from those of 1952. This is because new workers (young people) entering the labor market in 1953 just about equaled the number of people who left it.

What is really happening? Some workers have left the ranks of the employed to retire. Some wives who have been holding down full-time jobs have decided to quit working out and to make a real home for their husbands. Many have not been replaced. These people do not swell the ranks of the unemployed; they simply deplete the ranks of the employed to whatever extent they are not replaced. Obviously, in retirement one has less income. Obvious, also, is the fact that when a wife ceases to supplement her husband's income, that couple will have less money to spend.

### Savings Beat All Records

There's another angle to our problem: How much money people have hidden away in their socks. It may surprise you to learn that the top 50% of our families have readily convertible savings amounting to a staggering $97 billion. The bottom 50% share $1 billion in liquid savings. Our people have built up a $200-billion equity in their homes, with but a $50-billion mortgage debt. 60% of our families own $38 billions' worth of automobiles. And 50% of all families have a net worth greater than a year's income.

When the figures are all in, I am pretty sure that 1953 will prove to have broken all peacetime records for savings. People spent much less than they made in 1953. Cash or readily convertible assets saved in 1953 could have soared to better than $16 billion compared with about $3 billion in 1949 and about $12 billion in 1951. Perhaps the mad rush to buy is over. This is a healthy sign.

### A Key to Prosperity

I like to see this trend, up to a certain point. However, too much money lying idle is bad for our economy. America, you see, is a country that actually develops its way to prosperity. And the way to keep prosperity is to keep raising our living standards higher and higher by creating more and more wants for more and more goods and services without proportionately increasing what people owe.

There are enough Americans who have money to spend in 1954 to hold business high. If, for example, the top 50% of our families with their $97 billion continue to hold their purchases high, the lower 50% will be kept busy producing. All groups will then have the funds necessary to satisfy their needs. We have a huge backlog of buying power. It's up to the sales and advertising brains of the country to get us to spend it.

## Halladay Admits

Halladay & Co. 14 Wall Street, New York City, members of the New York Stock Exchange, will admit Louise C. Gorman to partnership, and Sara B. Halladay to limited partnership on Feb. 1.

## With Shearson, Hammill

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, Calif. — Edward J. Hallal has been added to the staff of Shearson, Hammill & Co., 9608 Santa Monica Boulevard.



# Dealer-Broker Investment Recommendations & Literature

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

**Common Stocks for Appreciation**—Tabulation—Eastman, Dillon & Co., 15 Broad Street, New York 4, N. Y.

**Cycles**—Monthly reports giving results of latest cyclic research in stocks, prices, business—$10—also included are reprints of six chapters and postscripts issued plus a Chart Projection to 1990 of various stock market cycles made in 1954 (Chart C-14)—Foundation for the Study of Cycles, 9 East 77th Street, New York 21, N. Y.

**Electric Light and Power Companies**—Tabulation of 36 selected utilities—Francis I. du Pont & Co., 1 Wall Street, New York 5, N. Y.

**Foreign External & Internal Securities**—1953 year-end prices—New York Hanseatic Corporation, 120 Broadway, New York 5, N. Y. Also available is a tabulation of preliminary 1953 New York bank earnings, and a discussion of the bond market.

**German Dollar Bonds**—Yield table—Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

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

**Oil Companies**—Comparative tabulation of leading companies—Edward D. Jones & Co., 300 North Fourth Street, St. Louis, 2, Mo.

**Oil Stocks**—Analysis of outlook—Kidder, Peabody & Co., 17 Wall Street, New York 5, N. Y. Also available is an analysis of **Thatcher Glass Manufacturing Co.**

**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.

**Preferred Stocks**—Compilation of offerings in 1953—Union Securities Corporation, 65 Broadway, New York 6, N. Y.

**Review and Forecast**—Bulletin—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

**Selected Stocks for 1954**—Brochure—Bache & Co., 36 Wall Street, New York 5, N. Y.

**Twenty Stocks for 1954**—Circular—Ammott, Baker & Co., Inc., 150 Broadway, New York 38, N. Y.

* * *

**American Research and Development Corporation**—Card memorandum—May & Gannon, Incorporated, 161 Devonshire Street, Boston 10, Mass.

**Big Horn Powder River Corporation**—Bulletin—Grayson-Eigles Co., 82 Beaver Street, New York 5, N. Y.

**Cannon Mills Company**—Analysis—Ferris & Co., Washington Building, Washington 5, D. C.

**Chase National Bank of the City of New York**—Bulletin—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

**Coca-Cola**—Memorandum—McDonnell & Co., 120 Broadway, New York 5, N. Y.

**Consolidated Engineering Corporation**—Analysis—Joseph Faroll & Co., 29 Broadway, New York 6, N. Y.

**Food Machinery & Chemical Corporatoin**—Analysis—Van Alstyne, Noel & Co., 52 Wall Street, New York 5, N. Y.

**Glidden Company**—Annual report—The Glidden Company, Cleveland 14, Ohio.

**Kaiser Steel Corp.**—Memorandum—Milwaukee Company, 207 East Michigan Street, Milwaukee 2, Wis.

**Manning, Maxwell & Moore, Inc.**—Analysis—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y. Also available is a list of depressed good-grade stocks.

**New York, New Haven & Hartford Railroad** vs. **St. Louis-San Francisco Railway**—Railroad bulletin No. 150—Smith, Barney & Co., 14 Wall Street, New York 5, N. Y. Also available is a memoranudm on **Congoleum-Nairn, Inc.**, and a bulletin on **Chicago, Milwaukee, St. Paul & Pacific Railroad Company** (No. 151).

**Pantepec Oil Company C. A.**—Circular—Benjamin, Hill & Co., 1 Wall Street, New York 5, N. Y.

**Phillips Packing Company**—Analysis—Richard E. Kohn & Co., 20 Clinton Street, Newark 2, N. J.

**Puget Sound Power & Light**—Review—Ira Haupe & Co., 111 Broadway, New York 6, N. Y.

**Riverside Cement Company**—Analysis—ask for report T-31—Lerner & Co., 10 Post Office Square, Boston 9. Mass.

**St. Regis Paper Company**—Analysis—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

**Southern California Edison**—Memorandum—Josephthal & Co., 120 Broadway, New York 5, N. Y.

# Clues to CLU

By IRA U. COBLEIGH

*Author of "Winning in Wall Street"*

**A few financial arrows directing attention to the sustained success of Cluett, Peabody & Co., Inc., whose N. Y. S. E. symbol is CLU.**

One hundred and two years ago, there was started, in a small one room workshop in Troy, N. Y., a distinguished textile enterprise that has burgeoned into a national institution with 17 factories spread over the U. S., a top-flight textile laboratory, and gross earnings in the neighborhood of $80 million a year. The famous arrow of Cluett, Peabody aims to keep a shirt on your back at all times, and has hit its mark and its market, for decades, with outstanding effectiveness.

Ira U. Cobleigh

The forerunner of today's company was a name you probably never heard—Maullin and Glanchard—which in the very same year in which Isaac Singer invented the sewing machine, began to parlay power and machinery into the extensive manufacture of detachable collars. Later in 1863 the business was sold to George Cluett and his two brothers and in 1868 Mr. Peabody joined up, the Arrow name was introduced and Cluett, Peabody & Co. was merrily started on its way to leadership in setting the fashions and modes of collar and shirt for masculine America.

For years the collar was everything, and you were a peasant if you didn't dress up in a buster brown collar if you were so high, or begird your neck with a minor stockade of starch if you were a dignified moustached grown up. Came World War I and tens of thousands of returning soldiers grown used to the soft army shirt with collar attached, demanded the equivalent in "civvies." So it was that in the 1920's **Arrow** presented its trump soft collar attached shirt and in less than a century we had, style-wise, swung full circle—from ornate collar-on shirts, to detachable collars, and back to the attached jobs again. At last the collar had got the starch knocked out of it, and the public had become attached to attached collars!

Another CLU contribution to torso textiles was the conquest of shrinkage. In 1919 Sanford L. Cluett hit upon a pre-shrunk process that bears his name, which was, by general agreement, the most important contribution to the textile trade since mercerizing. This process which has for years been bringing in steady royalty income to CLU (1952—$1,850,000) started as Sanforizing for cottons, and has been adapted to Sanforset for rayon, and Sanforlan for wool.

Today Cluett, Peabody & Co. is an integrated textile organization, beginning with the raw cotton and running through to the manufacture of a complete line of shirts, handkerchiefs, sport shirts, and underwear. It is believed to be the largest manufacturer of branded shirts and underwear in the world.

For 1954, **Arrow** goes forward with an expanded merchandise line, including strolling shorts, cabana sets, swim trunks and a leisure slack. Further, opening with a panoramic preview showing at a luncheon at the Plaza Hotel in New York last week, **Arrow** is launching a sleek and functional line of boys' wear. Running the gamut from underwear and swim trunks, to sport knits and checks, dress shirts and a collateral line of ties and handkerchiefs. At first blush, this might not seem a dramatic forward move but on reflection, you'll see it is. For this new program is beamed toward two major objectives. First, the war baby boom has increased by 60% the 1 to 6 year old boy population (by mid 1957, we'll have 25 million boys). This represents a vast and, for Arrow, a brand (Arrow brand, that is!) new and untapped market which might well be able to boost CLU 1954 gross by from $2 to $4 million. That will be fine, and open up new areas of profitability. More important, however, is the long range result, namely that a whole generation of boys at an early and impressionable age will be getting "hep" to Arrow and will, in theory, build up the name and good will of Arrow and make lifetime customers out of today's juniors. Anyway you look at it, it's smart merchandising, and a considerable tribute to the vision and judgment of the energetic president and executive marksman at Arrow, Mr. Barry T. Leithead.

The above rather extensive resume of Cluett, Peabody & Co., its history, and its products, has been set down as an outline for investors, who have apparently not been, to any great extent, apprised of the qualities inherent in CPU equities. It's really a very durable enterprise with an unbroken dividend record since 1923, yet its common stock has appeared on comparatively few investment offering lists. The 1952 year-end report showed only 8,945 stockholders.

It does not seem illogical for CLU common to be considered for investment purposes, especially when it presently pays a $2.50 dividend to yield at its current NYSE quotation of 34¼, 7.30%. Nor does this dividend seem in jeopardy since $3.96 per share was earned in 1952; and the projection for 1953 (the official figures have not yet been published) of somewhere around $4.35 a share provide splendid coverage. Today's book value should be above $45 for each of the 723,358 common shares outstanding.

For those of a more conservative turn of mind, CLU $4 second preferred offers a yield of about 4.5% at 88 and has the advantage of a conversion privilege — into the common at $40 anytime to Oct. 1, 1957. It's callable at 103. There is also a $7 straight preferred of high quality that sells around $132.

Whereas textiles in general have not been especially popular in recent months and have, as a class displayed a virtual minimum of market buoyancy, CLU offers elements of both diversity and stability, and a prospect for growth in earnings far superior to the general run of textile equities. The earnings from the Sanforizing Division have provided, in the past, a rather steady cushion. While the patent rights for the Sanforize process expired in 1949, licensing agreements providing certain services by CLU and allowing the use of the Sanforize trademark which has been splendidly and widely advertised should continue to bring in substantial revenues. Further, the trend toward the leisure look in shirtings for man and boy, augurs well for probable expansion in sales.

Another quite unusual element here is the sustained year in and year out profitability. Only in 1932 did the company fail to rack up a net profit; and the best postwar year was a fat $7.33 per share which carried the common up past $60 a share.

Compared with the rather subdued profit prophecies offered by many economic pundits for 1954, the prospects for CLU seem quite bright and certainly today's buyer could hardly be said to be paying inflated prices for CLU at $34¼. Here's a company with a record for earning and reinvestment in the business for decades, with an obviously alert and progressive management, above $35 million in working capital, with no long-term debt whatever; and a new boys' division launched under most favorable conditions, and after an extensive market research.

In Argentina, Peron makes great political hay by appealing to the "descamisados" or shirtless ones. Here in the U. S., thanks to a bountiful economy, and progressive merchandising by companies like Cluett, Peabody, the "shirtless ones" are non-existent —we've got buyers and investors instead!

## German Dollar Bond Trading Resumed on NYSE

Trading in German dollar bonds was resumed on the New York Stock Exchange on Jan. 12 for the first time in more than a dozen years.

G. Keith Funston

Trading, however, it was announced by Keith Funston, President of the Exchange, will be permitted only in validated bonds of the Dawes and Young loans or in validated bonds which have been exchanged for Dawes and Young obligations.

Restored to trading are $2,000,000 (validated amount) of the 1924 German External 7% gold bonds due Oct. 15, 1949 (Dawes loan) and $3,600,000 (validated amount) of the 1930 German Government International 5½% loan gold bonds due June 1, 1965 (Young loan).

Admitted to trading for the first time were:

$2,180,000 (validated amount) of German External Loan 1924, Federal Republic of Germany Extension Issue 1953, 5½% dollar bonds due Oct. 15, 1969.

$253,000 (validated amount) German External Loan 1924, Federal Republic of Germany, Funding Issue 1953, 3% dollar bonds due Oct. 15, 1972.

$2,600,000 (validated amount) German Government International Loan 1930, Federal Republic of Germany, Extension Issue 1953, 5% dollar bonds due June 1, 1980.

$329,000 (validated amount) German Government International Loan 1930, Federal Republic of Germany, Funding Issue 1953, 3% dollar bonds due Dec. 1, 1972.

Eventually, it is estimated, the amount of Dawes Loan and Young Loan bonds which may be validated could increase to $105,000,000.

Both of these issues along with 51 other issues of German dollar bonds, were suspended from dealings by the Stock Exchange on Dec. 11, 1941.

During the late 1930's, the German Government purchased millions of dollars worth of German dollar bonds, taking advantage of the low market prices then for these obligations. For some unknown reason, the purchased bonds were not cancelled, but were merely stacked in bank vaults. After Berlin was captured by the Russians on May 2, 1945 these bonds disappeared.

Accordingly the owner of a particular German bond wishing to have it validated must prove that the certificate was held outside Germany on Jan. 1, 1945.

Besides the German dollar bonds now admitted to trading other issues, it is announced, will probably be restored or admitted to trading later on.

### Joins Harris, Upham

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—Roy C. Speer has become associated with Harris, Upham & Co., 232 Montgomery Street. He was formerly with Walston & Co. and E. F. Hutton & Co.

# Connecticut Brevities

**The Fenn Manufacturing Company** has commenced operations in its new 85,000 square foot plant in Newington. The new $1,250,000 plant will house all of the company's operations except the manufacture of Sikorsky helicopter transmissions and the plating operations which will continue at one of the New Britain plants. The Hartford plant and the other New Britain plant will be closed down and the 800 employees formerly at these plants will be transferred to the new location.

* * *

**Davis & Geck, Inc.,** located in Danbury, is building a 6,000 square foot addition to its No. 2 plant. The company manufactures surgical sutures.

* * *

**Emhart Manufacturing Company** is adding to its Bartholmew Avenue plant in Hartford. The new building will cost $45,000 and be of steel and concrete construction. Its Henry & Wright Division is making alterations to its plant, including a new truck loading dock, at an estimated cost of $125,000.

* * *

**American Hardward Corporation** is in the process of consolidating its operations. The Russell & Erwin Division will be transferred from the Myrtle Street plant to the main plant on Park Street, both in New Britain. After the move is completed, which should be by April 1, the vacated buildings are expected to be sold.

* * *

**Manning, Maxwell & Moore, Inc.** is moving its aircraft products division from Stratford to Danbury. A tract of land and buildings have been purchased on Shelter Rock Lane and a plant has been leased from **Danbury Centerless Grinding Company.**

* * *

**Bridgeport Brass Company** has leased an 800,000 square foot plant at Adrian, Michigan from the Air Force Material Command. The plant, which is equipped with 16 extrusion presses of various sizes up to 5,500 tons, will be used to produce aluminum extrusions, tubes, and forgings for airplanes as well as extrusion rods, wires and tubes for commercial use. The company has also recently announced that it will produce cooking utensils from a new stainless steel copper-clad metal, which will consist of a copper sheet sandwiched between two sheets of stainless steel.

* * *

**The Electric Boat Division of General Dynamics Corporation** will launch the Nautilus, the first atomic powered submarine, on Jan. 24. A second nuclear powered submarine is under construction. The parent company's sales for 1953 are estimated at about $190,000,000 which is an increase of some 40% over the 1952 level.

* * *

**Hartford Gas Company** on Dec. 28 placed privately through two local brokerage firms acting as agents an issue of first mortgage bonds, series C in the amount of $1,200,000. The bonds, due Feb. 1, 1979, will provide proceeds for conversion and expansion as a result of the recent conversion to a mixed gas with an 800 BTU heat content.

* * *

**The New York, New Haven and Hartford Railroad** has recently sold an issue of $6,600,000 series A 3¾% equipment trust certificates with maturities from one to 15 years. The proceeds of this and of a subsequent issue of the same size are to be used to finance 75% of the cost of 100 air-conditioned passenger cars for commuter use between New York and Connecticut.

* * *

**The American Paper Goods Company,** whose main plant is located at Kensington, has recently completed a new warehouse for storage of raw paper. The addition enlarges the warehouse built in 1952 from 4,000 to 9,600 square feet of floor space.

* * *

**Scovill Manufacturing Company** is constructing two new buildings in Waterbury. One will house the employee relations department, the employment office and hospital facilities. The other will be an employee recreation center.

## Halsey, Stuart Group Offer Utility Bonds

A group of underwriters headed by Halsey, Stuart & Co. Inc. is today (Jan. 14) offering $25,000,000 of Public Service Co. of Indiana, Inc. first mortgage bonds, series K, 3⅜%, due Jan. 1, 1984, at 102.325% to yield approximately 3.24%. These bonds were awarded to the group on Tuesday on a bid of 102.09%.

Of the proceeds received from the sale of the bonds, $15,000,000 will be applied to the repayment of outstanding bank loan notes and the balance to its construction program.

The company has the option of redeeming bonds at prices beginning at 105.63%, and for sinking fund purposes only they may be redeemed on or after May 1, 1955 at prices beginning at 102.72%.

Public Service Co. of Indiana, Inc. furnishes electricity in areas located in 70 of the 92 counties in the State of Indiana. The territory is residential, agricultural and widely diversified industrially. Among the larger cities served are Terre Haute, Kokomo, Lafayette, New Albany and Bloomington.

## Floyd N. Dull Opens

RUTHERFORD, N. J.—Floyd N. Dull is engaging in a securities business from offices at 119 Donaldson Avenue. He was formerly a partner in Irle & Dull, New York City.

## Forms Fred Juliano Co.

WEEHAWKEN, N. J.—Alfred Giugliano is engaging in the securities business from offices at 2306 Palisade Avenue under the firm name of Fred Juliano & Co.

# Indiana Toll Road Commission Financing Completed

The largest public offering of toll road bonds made in 1953 was formally completed on Jan. 12 when a check for $268,399,444.44 was received by representatives of the Indiana Toll Road Commission from the investment banking group which sold the bonds on Dec. 17, 1953. The check, representing a final payment of a total purchase price of $273,999,444.44 for $280,000,000 principal amount of 3½% Commission bonds due 1994, was handed, for the account of the Commission, to C. A. Berry (seated, left) Vice-President of The Indiana National Bank of Indianapolis, Trustee of the bonds, by C. Cheever Hardwick, (seated, right), partner in the investment banking firm of Smith, Barney & Co., New York. The firm was co-manager of a nationwide group of 475 investment bankers which offered the bonds. The concluding ceremonies took place at The Hanover Bank, New York.

Observing the conclusion of the successful financing operation are (above, rear, left to right) Noble L. Biddinger, Executive Vice-President, City Securities Corporation, Indianapolis, one of the eight co-managers of the investment banking group; Fred P. Backer, Vice-President of the Merchants National Bank & Trust Company, Co-Trustee of the bonds; Charles Gauding, Auditor, Indiana National Bank; Bruce Short, Secretary-Treasurer of the Indiana Toll Road Commission; Russell Petersen, Vice-President, Indiana National Bank; and Harry Ice, of Ross, McCord, Ice & Miller, Indianapolis, Bond Counsel for the Indiana Toll Road Commission.

Proceeds from the sale of the bonds will be used to finance construction of a toll road which will traverse the State of Indiana. The road will extend approximately 156 miles across the northern part of the state from a point on the Indiana-Illinois line between Chicago, Ill. and Hammond, Ind. to a connection at the Indiana-Ohio Line with the western terminus of the Ohio Turnpike, now under construction. The Indiana Toll Road is expected to be opened to traffic late in 1956.

# "Exchange Distribution" Plan in Operation

**Sales of approximately 15,000 shares of National Gypsum stock by W. E. Hutton & Co. consummated at prevailing market prices, free of commission charges, in less than three trading days.**

On Jan. 8, it was announced by Keith Funston, President of the New York Stock Exchange, that the first distribution of a large block of listed stock occurred under the new "Exchange Distribution" plan.

Acting as a principal, the member firm of W. E. Hutton & Co. sold during the period Jan. 6-8 inclusive, approximately 15,000 shares of National Gypsum stock. Weekly share volume on the Exchange ordinarily totals around 7,500 shares of this particular issue. The stock was first offered at a time when National Gypsum was quoted on the Exchange floor at 20⅝ bid; 20¾ asked and last.

The stock was sold in less than three full trading sessions—all at prevailing market prices. Prices were "net"—no commission being charged buyers.

W. E. Hutton & Co., which has 80 salesmen in its 11 offices, developed purchase orders for National Gypsum during the course of the "Exchange Distribution" in Boston, Cincinnati, Philadelphia, Baltimore, Portland and Lewiston (Maine) and New York City — seven cities in six states.

Individual purchasers totaled 71—the largest for 2,854 shares, and all orders were "crossed" on the Exchange floor with the firm's sell orders.

According to the New York Stock Exchange rules an "Exchange Distribution" must be approved in advance by the Exchange, and such approval is given only when a floor Governor rules that the block of shares involved cannot be absorbed within a reasonable period of time in the normal course of the auction market.

An "Exchange Distribution" differs from other methods of secondary offerings in that the execution price is made by "crossing" the stock in the regular auction market; whereas secondary distributions (made after the close of the stock market) and special offerings (made during the market hours) are at one pre-determined, fixed price.

The "Exchange Distribution" plan was designed to bring more stock transactions to the Exchange's trading floor, especially in the form of medium-sized blocks, thus increasing the breadth and liquidity of the auction market—in the public interest.

Although in this first application of the plan W. E. Hutton acted as a principal, the "Exchange Distribution" plan also permits such distributions when the firm, or a group of firms, acts as agent for both the seller and the buyer.

Orders for the purchase of the stock are grouped together and sent to the trading floor, together with an order to sell an equal amount, and "crossed" in strict accordance with Stock Exchange rules.

# From Washington Ahead of the News

By CARLISLE BARGERON

The late Senator Wherry of Nebraska, was the victim up until the time he died of a Leftist smearing campaign because he had committed the unmitigated sin of defeating their darling, George Norris. To my mind, and I expressed it several times during Norris' life time, he was one of the biggest hypocrites we ever had in the Senate.

Carlisle Bargeron

But Wherry, notwithstanding that he was reelected the second time and arose to the position of Republican whip in the Senate, lived under a continuous cloud. The Leftists, and the Liberals—they are synonomous—seldom mentioned him without referring to him as a former undertaker, which he was.

Similarly it was a crime, fortunately not statutory, for Senator Butler of Maryland, to have defeated Millard Tydings in 1950. And furthermore, it was a crime even to have been associated with Butler in this campaign. Butler, himself, was subjected to a long committee investigation which produced a lot of horrendous headlines but when you read the stories beneath them you wondered just what was scandalous or even newsworthy about the committee's findings. There was one episode which was given wide play with all the wraps of mystery. In involved a printer who was supposed to print some anti-Tydings literature and distribute it. When a couple of youngsters in Butler's campaign learned he hadn't made the distribution they sought to get their money back. The printer went with them to a beer parlor to talk matters over. In the committee hearing he claimed he had been forcibly taken from his home and taken for a midnight ride of terror.

When all the evidence was sifted it was apparent that the great sin that had been committed was the defeat of Tydings. Tydings, a few months before had become a hero of the Leftists for undertaking the political crucifixion of McCarthy. This was what mainly brought about his defeat.

It so happens that as a resident of nearby Maryland I supported him. But I also told him before the campaign got underway that he was headed for defeat. He was a very able man and I should like to see him in the Senate now. But by no means can I see any criminality or wrongdoing on the part of the man who defeated him or on the part of those who aided in his defeat.

What I am getting to, by way of showing how these Liberals and/or Leftists operate, is that they are still pursuing those who took part in the Butler campaign. Sneers and innuendoes frequently appear against them in the gossip columns and the so-called Liberal press.

Now they have turned their guns on a man whose wife participated in the campaign to the extent of distributing some Butler literature. He is Robert E. Lee recently appointed to the Federal Communications Commission after having served several years as an aide to Chairman John Taber of the House Appropriations Committee. A former FBI agent, well educated, thoroughly competent, his work at the Capitol among Republicans has, of course, brought him into association with Joe McCarthy.

It is on this basis that the Liberals and/or Leftists are now trying to block his confirmation, this and the fact that his wife served in Butler's campaign. I submit that neither indictment—association with McCarthy or his wife's service with Butler in the defeat of Tydings—constitutes sin with anybody except this army of smearers who are always decrying McCarthy's Communist hunt. It makes utter mockery of their professed concern about McCarthy's "tactics." I think the story is important because it points up so well the tactics they themselves use, the tactics they have always used. I always feel a fluttering in the stomach when I hear them mention decency in any sense, whenever they bemoan the lack of it on the part of anybody else or attribute it to themselves.

What is important is what the Senate will do about their attack on Lee. In that body it is being led by Senator Monroney of Oklahoma. The Liberal-Leftist crew embraced him when he first came out of Oklahoma, labelled as a "forthright, forward-looking" young newspaperman. He was impressionable and flattered and he has tried to be a young intellectual among the Liberal-Leftist element ever since. The Senate being as evenly divided as it is, it may be that he will be able to make quite a fuss and attract some attention in his campaign against Lee, but his drawback will be that not enough of his fellow Democrats are as "forthright, forward looking" or as intellectual as he. Most of them are, in fact, well imbued with the decencies, political as well as those that apply in other walks of life.

## With du Pont on Coast

SACRAMENTO, Calif.—Jack I. Claussen is manager of Francis I. du Pont & Co.'s new branch office in the Financial Building. Associated with him are Louis P. Volz and Kenneth C. Watson. All were previously with J. R. Williston, Bruce & Co.

## A. W. Morris Adds

(Special to The Financial Chronicle)

BEVERLY HILLS, Calif. — Irwin Spivey is now with A. W. Morris & Co., 9680 Santa Monica Boulevard, members of the New York and Los Angeles Stock Exchanges. He was previously with Daniel Reeves & Co.

## With F. I. du Pont

(Special to The Financial Chronicle)

BAKERSFIELD, Calif. — Charles E. Kenealey has become affiliated with Francis I. du Pont & Co. He was formerly with Davies & Co. and James Ebert Co.

## With Fulton, Reid & Co.

(Special to The Financial Chronicle)

CLEVELAND, Ohio — Ross C. Loudon is now with Fulton, Reid & Co., Union Commerce Building, members of the Midwest Stock Exchange.

## Honor Edward Hilliard on Retirement

LOUISVILLE, Ky.—The investment houses of Louisville presented Edward Hilliard with a watch at a dinner given in his honor on his retirement from J. J. B. Hilliard & Son. Mr. Hilliard will devote his time to personal business and writing about economics.

## COMING EVENTS

In Investment Field

**Jan. 14, 1954 (New York City)**
Advertising in Action Conference at the Waldorf-Astoria Hotel.

**Jan. 22, 1954 (New York City)**
New York Security Dealers Association 28th annual dinner at the Biltmore Hotel.

**Jan. 22, 1954 (Philadelphia, Pa.)**
Annual meeting and election of Philadelphia Securities Association.

**Jan. 23-25, 1954 (Chicago, Ill.)**
National Security Traders Association meeting of officers, members of council and National Committee at the Hotel Sherman.

**Jan. 25, 1954 (Chicago, Ill.)**
Bond Traders Club of Chicago mid-winter meeting at the Furniture Club.

**Jan. 29, 1954 (Baltimore, Md.)**
Baltimore Security Traders Association Annual Mid-Winter Dinner at the Lord Baltimore Hotel.

**Jan. 29, 1954 (Philadelphia, Pa.)**
Bond Club of Philadelphia annual meeting at the Warwick Hotel.

**Feb. 26, 1954 (Philadelphia, Pa.)**
Investment Traders Association of Philadelphia annual midwinter dinner at the Ben Franklin Hotel.

**May 7, 1954 (New York City)**
Security Traders Association of New York annual dinner at the Waldorf-Astoria.

**May 16-20, 1954 (Chicago, Ill.)**
National Federation of Financial Analysts Societies Convention at the Palmer House.

**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.

**Nov. 28-Dec. 3, 1954 (Hollywood, Fla.)**
Investment Bankers Association Convention at Hollywood Beach Hotel.

## James Murphy Forms Co.

BROOKLYN, N. Y.—James R. Murphy has formed Murphy & Company with offices at 67 Hanson Place to engage in a securities business.

## Stamrowe Trading Company Opens

Stamrowe Trading Company, Inc. has been formed with offices at 96 Wall Street, New York City to engage in the securities business. John R. Maher is a principal in the firm.

## Whitney Inv. Co. Opens

SALT LAKE CITY, Utah — Frank M. Whitney is engaging in a securities business from offices at 200 South Main Street under the firm name of Whitney Investment Company.

# THE MARKET . . . AND YOU

By WALLACE STREETE

Unlike the year's first week which started lustily but fizzled out toward the end, this week's market decided on a reverse performance with a dismal beginning but then the tone improved in the later trading. On an overall basis, however, the market continues in a trading range with no indication yet of what it intends to do if, indeed, it intends to do anything before the business picture clarifies.

* * *

More important from a technical standpoint is that the list so far this year has backed off—for the third time since the September lows were set—from the 285-287 overhead resistance level. This, while it does build up the base for any future assault, nevertheless is discouraging because it indicates that the usual January reinvestment demand was either lighter than had been anticipated or ran into more of a supply of stock than had been foreseen. And it does indicate that it will take a while for the list to gather its strength for the next try to negotiate the critical level.

* * *

### A Slightly Higher Push

The optimistic side is gleaning what comfort they can from the fact that last week's strength pushed more into the resistance band than any of the previous rallies although it was measured in pennies over the December and November best levels. It is also of meagre comfort that the rails have been showing a superior performance to that of the industrials although they have been dawdling at a lower level in their own trading range than the industrials. The fact that they have been backward for so long makes any improvement in their behavior heartening.

* * *

On the basis of individual stocks, the market shows no signs of wandering from the pattern of last year, that being one of high selectivity. Individual issues that had their moments of good popularity included Lily-Tulip Cup, American Brake Shoe, Bayuk Cigars, Book of the Month and Pennsylvania Glass Sand Corp.—a rather diverse group not easily fitted into any single pattern. Split prospects, possible favorable dividend action and earnings all made their weight felt on the various issues.

* * *

Of the standard trading favorites, motors did little decisive, steels were prominent for above-average stability, oils were somewhat mixed and tobaccos continued to lag with a technical rebound here and there to relieve the monotony. It is chiefly in these groups that the majority opinion expects uncertainty for some time until there are more indications of how they will fare in the first quarter.

* * *

### Montgomery Ward's New Look

Among the issues that seem to be facing the new year with a better mien is Montgomery Ward. This issue has been to all intents and purposes one of the do-nothing ones since War II, in rather consistent frustration. Montgomery has never since 1946 approached the magic level of above par, largely because of the management views that a time of inflation was no time for expansion, the contrary view to that advocated and followed by its mail order companion, Sears, Roebuck.

* * *

A measure of Ward's market inaction was its loss through all of last year of less than 10%, while the year before, a not too good one for stores stocks generally, it held to an 8% loss. Both, considering what occurred, are rather minor figures.

* * *

To get back to the selectivity on a statistical basis, the 30 industrials of the Dow average turned in a highly varied performance last year. One-third of the issues continued to advance despite the story purportedly told by the averages of a sick year. Four others continued a slide that began the year before or earlier. Thirteen reversed their patterns to the downside and three that had lost ground in 1952 turned around and posted net gains last year, these favored three being Loew's, Corn Products and Eastman Kodak.

* * *

There is something of a suspicion for at least a couple of them that the usual year-end tax-loss selling this season was replaced by switching without regard for the calendar. The fact that they have done little since, although admittedly a couple of weeks of trading is hardly convincing, merely bolsters the case. And it might be a clue to the disappointing reinvestment demand.

* * *

### Rails' United Downward Trend

The rails last year showed a far more united front on the downside, all but two turning from gains to losses on an annual basis. For one, Canadian Pacific, the loss last year was merely an extension of that of the year before, and New Haven is a dubious member of the group, what with management dissension complicating the picture and its investment status somewhat less than that of the proven members of the group. Nevertheless, it is against this background of a united front on the downside that the timid shows of strength in the last two weeks stand out hopefully. Missouri Pacific preferred's vigorous response to new proposals that would step up the reorganization, now better than 20 years old, was only one of the better omens.

* * *

Of the couple of rails that featured the new low list of this week, Chicago & North Western is a special situation hardly typical of the standard issues and the appearance of New York Central on the same list could have been somewhat incidental, particularly since a new low was within such close range. Neither made their new lows, moreover, with the conviction of Northwest Airlines which was the week's dividend casualty, slumping badly after directors announced they were unable to muster the preferred payment.

* * *

### A Technically Stalled Market

Other of the standard technical indicators were either neutral, confused or inconsequential. Volume, for instance, has been lagging somewhat badly. Where the first two weeks of last year featured several two-million-share days and an average of well past a million and a half, so far in the 1954 trading volume has only been able to struggle across the latter minimum line on a couple of the sessions.

* * *

New highs and new lows have been alternating at the top of the pile and the list has been somewhat narrow, hovering around the 1,100-issues per day mark, considerably below the 1,222 issues that appeared in the hectic 1953 windup. In fact, in midweek the total dipped below 1,100 for one of the lower readings since the doldrums of the summer.

* * *

In fact, if the market isn't actually stalling for time, it is at least going through a reasonable semblance of it.

[*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.*]

# Col. Oliver A. Troster Receives First Army Certificate

The First Army Certificate of Achievement has been presented to Army Reserve Colonel Oliver A. Troster, Partner in Troster, Singer & Co., 74 Trinity Place, New York City.

In a brief and informal ceremony held at the New York City Army Reserve Training Center at 30 West 44th Street, the award was presented to Colonel Troster for "exceptionally meritorious and faithful service in the Transportation Corps Reserve, during the period Aug. 19, 1948 to September 1953," by Colonel H. A. Cooney, Chief of the New York Military District.

Colonel Troster is now a member of the Retired Reserve and has completed 30 years of honorable service in the Army and the Army Reserve.

A veteran of both World War I and World War II, he was first commissioned a Second Lieutenant in the Army in June, 1916.

Among the many medals and awards he holds are the Silver Star, Mexican Border Service Medal, World War I Victory Medal, Army of Occupation Medal (Germany), Legion of Merit, Bronze Star Medal, Army Commendation Medal, American Defense Service Medal, American Campaign Medal, Asiatic-Pacific Theatre Medal, World War II Victory Medal, Army of Occupation Medal, Philippine Liberation Medal and the Armed Forces Reserve Medal.

The citation accompanying the First Army Certificate of Achievement reads in part:

"Serving as Commanding Officer of the 307th AGC Replacement Depot and Deputy Commander and Chief of Staff, 301st Logistical Command, positions which are usually occupied by Brigadier Generals, Colonel Troster's outstanding leadership, tact, initiative, foresight and professional knowledge were instrumental in developing a highly trained Reserve unit which when called to active duty carried out its mission in a highly commendable manner.

"Colonel Troster's experience and knowledge gained over his many years of service played an important part in the successful reorganization of the 301st Logistical Command upon its return from active duty status in 1952. By his loyalty, tireless efforts and outstanding devotion to the Reserve Program, he has set an example that is in the best traditions of the military service and reflects great credit upon himself and the Army Reserve."

# $19,266,000 Montreal Debentures Offered

Public offering of $19,266,000 debentures of The City of Montreal (Canada) is being made today (Thursday Jan. 14) by a syndicate managed jointly by Shields & Company, Halsey, Stuart & Co. Inc. and Savard & Hart. The debentures are offered at prices scaled to yield from 3.00% to 4.00%, according to maturity.

The total offering of $19,266,000 of debentures is comprised of $11,266,000 1954 United States Currency Issue Debentures, for Local Improvement, due Oct. 1, 1956 to 1972, inclusive and $8,000,000 1954 United States Currency Issue Debentures for Public Works, due Oct. 1, 1954 to 1964, inclusive. The City of Montreal has set coupon rates on the Local Improvement Debentures ranging from 3½% to 4%, and on the Public Works Debentures ranging from 3% to 3⅞%.

Debentures of each issue will be direct and unconditional obligations of the City of Montreal. Proceeds from the sale of the Local Improvement Debentures, will be applied by the City among other things toward the payment or reimbursement of the cost of sewers, pavements, and sidewalks, and the extension and widening of certain streets. Proceeds from the sale of the Public Works Debentures will be applied among other things toward the payment or reimbursement of the cost of various public works, including slum clearance, road and highway construction, public garages, parking grounds, trunk sewers, parks, playgrounds, and construction of a civic centre and concert hall.

The debentures will be redeemable as a whole or in part, at the option of the City of Montreal, at prices ranging from 100% to 1002%, plus accrued interest. In the opinion of counsel, income taxes presently imposed by Canada will not be payable in respect of the Debentures or interest thereon by owners who are non-residents of Canada.

Also participating in the offering are: Bell, Gouinlock & Co., Ltd.; Hornblower & Weeks; Mills, Spence & Co.; Burns Bros. & Denton, Inc.; Coffin & Burr, Inc.; Shearson, Hammill & Co.; Stroud & Co., Inc.; Gregory & Son, Inc.; H. Hentz & Co.; New York Hanseatic Corp.; Swiss American Corp.; F. S. Smithers & Co.; Courts & Co.; McDonald & Co.; Singer, Deane & Scribner; Field, Richards & Co.; A. E. Masten & Co.; Piper, Jaffray & Hopwood; Thomas & Co.; Ferris & Co.; Charles King & Co.; Mackall & Coe; Wm. J. Mericka & Co. Inc.; Merrill, Turben & Co.; Townsend, Dabney and Tyson.

*LETTER TO THE EDITOR:*

# Mid-Western Dealer Defends Stock Split-Up and Stock Dividends

**Paul E. Conrads, owner of Conrads & Co., Rockford, Ill., holds increasing number of shares in a company aids in spreading ownership and in establishing true market value. Cites success of stock dividend policies of insurance companies.**

*Editor, Commercial and Financial Chronicle:*

I would like to enter the present discussion on stock splits and stock dividends. Necessarily, my discourse must not be academic, as I operate in the securities markets and deal in our nation's corporations common stocks and see where practice and theory are too often utter strangers. Theory, to my way of thinking, may well be the way it should be done and practice is the way it is done. The teachers of economics or of finance in our colleges and universities teach the economic laws and the laws of finance but the student on entering public life finds that by rule and edict man has tried to transcend or even contradict these laws in the interest of group or individual aggrandizement and expediency.

Paul E. Conrads

In the days before public ownership of our American corporations, shares were in the hands of but a few individuals. Often the directors and their immediate families owned all of the outstanding shares of the corporation. No need there to send out quarterly reports or annual reports for these men were all employed by the corporation or in close touch with each development. No need here to split the shares in order to make a broader market nor capitalize earnings which had been plowed back in the form of machinery, mortar, and brick and pay a stock dividend for there was no market for the shares and this would, therefore, mean nothing to the shareholders. However, this all changed when corporations were forced to go to the public for new money or when death caused a break-through in many closed corporations and its stock subsequently found its way into the hands of the public.

The significance of shares in our American corporations finding ownership by the public made it necessary that many changes take place. The one change in order that the public would buy these shares was the split-up. A split is effected by increasing the number of shares outstanding and by reducing the par value of the shares, the object being to bring the price per share down to a figure where more people would become owners and the market broadened. The public often will buy 50 shares of a $40 stock or 100 shares of a $20 stock where they would not consider buying 10 shares of a $200 stock. What is the difference you say? Well the difference is a big difference —if it is too high in price, they don't buy—they like more shares for their money. Certainly, as we have had a radical change in these United States, and our wealth is in more hands, it becomes even more important that our public has an even bigger stake in our capitalistic system through wider distribution of share ownership of our corporations. This wider distribution means more shares in more people's hands and so better markets.

I here make the statement that shares held by a large number of people in many sections of our country will at all times better reflect the true market value of these shares than shares in a company held by a few in a narrow, localized section. Perhaps more need be said to justify split-ups but others may have that privilege.

Now let's talk about stock dividends. Anything paid to a stockholder whether it be in cash, in stocks, in apricots, or orange juice is a dividend. Many of our former corporations were too interested in paying cash dividends so that the powers-that-be could continue living in their usual style. Times were changing, new products were entering these markets which were making their good-old-standby-product as well as their good-old machinery and equipment just a little more obsolete each year.

As an example of what I'm trying to illustrate: I attended the annual meeting of a comparatively small corporation right after the second world war. The stock of this corporation was held "in the family." They had a new manager this year outside the family. "The family" was now too old to continue in the management. At the first annual meeting, the new manager said that they should not pay the regular $30 per share this year as money should be kept in the corporation and used for new machinery. He explained that they were losing their market and could not meet their competition who, with new automatic machinery were not only under-selling them but were putting out a superior product. The response he got was that the present machinery certainly was good enough for hadn't it enabled the corporation to pay them $30 a year and better in dividends each year. On his threat of resignation they voted to set aside enough money for him to rebuild three old machines, but no new ones. The next annual meeting was a repeat of the last and the new manager resigned. I just gave you a story which has happened and is now happening in many of your localities, called —"Give us cash dividends today, the same as last year, regardless, said the stockholders and the corporation gave another gasp for it could gasp as it was suffering in the throes of slow death and had a few gasps left."

What are our corporations of today going to do when they find their markets upset and their machinery made obsolete by new or radically changed products brought out by new corporations entering their markets or one of their old competitors who through research have stolen a march on them? The only thing they should do is to revamp their whole procedure, junk their present machines, cut their cash dividends down to conserve their cash and possibly pay the balance in stock dividends in the hope that through these extraordinary expenditures they can keep their position in their industry and their earning power so that these stock dividends prove of worth in the future. If that method is not pursued, chances are there would be neither cash nor stock dividends available in the near future as this corporation would have lost not only its market but its earning power.

More of our corporations of late have adopted a policy of paying both a cash and a stock dividend, now that we are entering a competitive economy. Unless the payout of a stock dividend is done to conserve cash which is needed to expand the business, or to revamp the business, or to increase research it is not justified, for stock dividends, in the strict sense of the word, are not a substitute for cash dividends and were never meant to be.

It has been my good fortune to have placed many shares of our nation's fire and casualty company stocks in the hands of my clients. Here is an industry which has pursued a conservative cash dividend pay-out, year-in-and-year-out, together with a quite consistent pay-out of stock dividends. Of course, as a stock dividend is disbursed the shares rightfully fall in value. However, as time goes on the new shares often recapture the former price and the cash pay-out per share has remained the same. You, of course, can furnish many other examples.

One of our distinguished educators made a statement to your editor and your readers, as follows, ridiculing stock-splits and stock dividends. I quote—"If an apple is divided into eight parts, and a man owns one part, that is that. But if it is, instead, divided into 16 parts and the man gets two of the smaller parts, it is nonsense to say that he has more than he had before." I agree absolutely with this deduction. But there is one part of the apple he overlooked in talking about his apple and it is a most important part of his apple—the core with its seeds. The core of the apple with the seeds — that's the growth part— that makes the difference.

Did you ever take a potato, cut it in parts—just so there's an eye in each part—and plant each slice in a hill—and then nuture each hill—and reap a harvest?

Respectfully yours,
PAUL E. CONRADS

Conrads & Company,
321 W. State Street,
Rockford, Ill.
Jan. 11, 1954.

## Correction

In the "Financial Chronicle" of Jan. 7 it was reported that Arthur M. Krensky, President of the Republic Investment Co., Inc., Chicago, Ill., had acquired a membership in the New York Stock Exchange. Mr. Krensky resigned as President of Republic Investment Co. on Dec. 31, and holds the membership as an individual broker and the instant item was incorrect to the extent it may have been implied therefrom that the Republic Investment Co., Inc. is now a member corporation. While Mr. Krensky is at present a member of the New York Stock Exchange as an individual as indicated, he has plans for the future for the formation of a new corporation.

## A. C. Allyn Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Earl T. Weeks has been added to the staff of A. C. Allyn & Co., Merchants National Bank Building.

## Joins Clair Hall Staff

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, Ohio—Ellsworth F. Ireland has been added to the staff of Clair S. Hall & Company, Union Trust Building.

## C. H. Reiter Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, Ohio — W. Ross Dunn has been added to the staff of C. H. Reiter & Co., Union Trust Building, members of the Cincinnati Stock Exchange.

# Stock Market Forecast for 1954

By G. M. LOEB

Partner, E. F. Hutton & Co., New York City
Auther "The Battle for Investment Survival"

**Mr. Loeb, in presenting a market forecast for this year, says outlook is for increased competition, also generally lower profits, which will more than wipe out for many companies their savings from expiration of the Excess Profits Tax. Expects more sober and realistic markets in early 1954 "with liquidation of many situations likely."**

The popular economic forecast for 1954 is for a possible 10% decline in gross business and a somewhat larger decline in net profits. It has always been my contention that business forecasting cannot possibly come near the mark. The very expectation of a change sets forces in motion that generally tend to advance or cushion the expected trend. There is no possible way of forecasting individual psychological actions, such as increases or decreases in the rate of spending and saving. On top of all this, Washington policies and world developments are wholly unpredictable, yet ruling factors.

G. M. Loeb

The outlook is for increased competition and generally lower profits. Even those preferred companies currently paying Excess Profits Taxes may find their narrower margins will more than wipe out their savings.

The stock market continues more a market of stocks. The outlook for the majority of the smaller companies, marginal producers, also-rans, etc., is for lower levels, despite possible contrary trends in the leaders or in special situations. This is reflected in discount prices for the main body of shares and premium prices for the choice equities.

I think the September-December enthusiasm will be replaced by more sober and realistic markets in early 1954 with liquidation of many situations likely. It will pay to keep positions small, cash balances high and, above all, it will be wise to pay premiums for the best among the leaders and special situations. Very few apparently "bargain counter" shares will prove to be really cheap or actually able to recover.

# Text of Eisenhower's Message Recommending Labor Law Changes

**In special message to Congress he proposes specific amendments, chief among which are (1) fact-finding boards, if required by President, should be directed to make recommendations for settlement of disputes involving a national emergency; (2) all strike votes by union membership be required under a secret ballot system, supervised under government auspices; and (3) a clarification of jurisdiction between Federal and State authorities in strikes endangering public health and safety. Also recommends both unions and employers be made responsible for their agents' actions, and that a study be made as to how to protect welfare and pension funds set up under collective bargaining agreements.**

As promised in his "State of the Union Message," President Dwight D. Eisenhower, on Jan. 11, submitted to Congress a special message recommending certain changes in the Taft-Hartley Law relating to labor-management relations.

*The text of this message follows:*

I submit herewith for the consideration of the Congress a number of legislative recommendations affecting labor-management relations. These recommendations are in the interests both of working men and women, and our business and industrial community. In a broader sense they are in the interests of all our people, whose prosperity is in so great a degree dependent on the existence of genuine mutual respect and good feeling between employers and employees.

This field of legislation has had a long, contentious history. It has taken time for objective principles to emerge which can command mutual acceptance of the fundamentals which govern the complex labor-management relationship. Although the process is not and perhaps never will be complete, we have now achieved a measure of practical experience and emotional maturity in this field which, I do not doubt, is responsible for the relatively peaceful character of recent industrial relations. No drastic legislative innovations in this field are therefore desirable or required at this time.

Federal labor-management legislation at best can provide only the framework in which free collective bargaining may be conducted. It should impose neither arbitrary restrictions nor heavy-handedness upon a relationship in which good will and sympathetic understanding should be the predominant characteristics.

The National Labor Relations Act—known as the Wagner Act and adopted in 1935 by bipartisan majorities—came into being because American working men and women needed the protection of law in order to guarantee them the free exercise of their right to organize into unions and to bargain collectively through representatives of their own choosing. As unions became strong, a need arose to protect the legitimate rights of employees and employers and to protect the general public from the consequences of unresolved labor disputes that created emergencies endangering the health or safety of the nation. To meet this need the Labor-Management Relations Act, 1947, commonly known as the Tart-Hartley Act, was adopted by bipartisan majorities.

In enacting labor-management legislation, the Congress has always built upon the legislation which preceded it. We have never turned backward. The Labor-Management Relations Act, 1947, was no exception. It built upon the National Labor Relations Act, and not only reaffirmed, but reinforced the right of working men and women to organize into unions and to bargain collectively with their employer. The protection of this right is firmly fixed in our law and should remain a permanent policy of our government.

The Labor-Management Relations Act, 1947, is sound legislation. Experience gained in the operation of the Act, however, indicates that changes can be made to reinforce its basic objectives.

### The Injunction Process

In the area of employer-employee relations the injunction has always been a controversial process. It is apparent, however, that where irreparable damage threatens, the restraining effect of an injunction is required in the interest of simple justice. Nevertheless, where a collective bargaining relationship exists, the issuance of an injunction often has the effect of making settlement of the dispute which led to the injunction more difficult.

Therefore, I recommend that whenever an injunction is issued under the National Labor Relations Act where a collective bargaining relationship exists between the parties, the Federal Mediation and Conciliation Service shall empanel a special local board to meet with the parties in an effort to seek a settlement of their dispute. I further recommend that in secondary boycott cases, the application for an injunction be discretionary.

### Redefine Secondary Boycotts

The prohibitions in the Act against secondary boycotts are designed to protect innocent third parties from being injured in labor disputes that are not their concern. The true secondary boycott is indefensible and must not be permitted. The Act must not, however, prohibit legitimate concerted activities against other than innocent parties. I recommend that the Act be clarified by making it explicit that concerted action against (1) an employer who is performing "farmed-out" work for the account of another employer whose employees are on strike or (2) an employer on a construction project who, together with other employers, is engaged in work on the site of the project, will not be treated as a secondary boycott.

### Union Representation

As the Act is now written, employees who are engaged in an economic strike are prohibited from voting in representation elections. In order to make it impossible for an employer to use this provision to destroy a union of his employees, I recommend that, in the event of an economic strike, the National Labor Relations Board be prohibited from considering a petition on the part of the employer which challenges the representation rights of the striking union. I further recommend that for a period of four months after the commencement of the strike, the Board be prohibited from considering a petition on the part of any other union which claims to represent the employees. The prohibition against considering a petition by the employer should continue as long as the strike continues, provided, however, that a reasonable limit of time, which I suggest be one year, be stipulated.

### Contract Reopenings

The Act has been interpreted to mean that even though a collective bargaining contract is in force, either party may insist that the contract be reopened for the purpose of bargaining about matters that were not the subject of negotiations when the contract was made. Thus stabilization of the relationship between the parties

*Continued on page 41*



# 1953: "A Challenging Year for Banking"

**Henry C. Alexander, President of J. P. Morgan & Co., Inc., in annual letter to stockholders, also expresses belief that 1954 will be year of general stability though at perhaps somewhat lower level than 1953. Reveals J. P. Morgan & Co. earnings of $20.58 per share.**

In his annual letter to stockholders of J. P. Morgan & Co., Incorporated, dated Jan. 13, Henry C. Alexander, the President of this prominent New York banking house, reported that "Business activity ran at a high level for the year 1953. It reached an all-time peak in the early months, but later on declined moderately and somewhat more as the year drew to a close. The downward trends in certain segments of the economy and in certain industries did not, however, cause serious or widespread difficulties. They were generally moderate or restricted in scope. This has given encouragement to the belief that in the coming year general stability will be attained at a good level, though perhaps somewhat lower than in 1953.

Henry C. Alexander

"These changing trends in business activity naturally had their repercussions on the money market and on banking activities. In the early part of the year, the demand for bank loans to finance business was strong. The Federal Reserve System restricted the supply of money and credit, making them scarcer and dearer. Its measures proved so effective as to cause some concern lest, in their zeal to control inflation, the central banking authorities might bring on a deflation that once started might be hard to stop. In the late spring, however, they reversed their course. During the remainder of the year, they supplied funds to the market while at the same time business demand for loans failed to show the normal seasonal rise. Thus money and credit became easier.

"Interest rates at both short and long term fluctuated widely in view of these changing money market conditions. In the early part of the year they rose rather markedly; in the latter part, they underwent substantial declines. At the end of 1953, short-term rates on U. S. Government obligations were considerably lower than they had been a year earlier; long-term rates, only slightly lower.

"These wide fluctuations during the course of the year in the demand for loans, in the money market, in interest rates, and in the prices of bonds held in bank portfolios made the year a lively and challenging one for banking."

A condensed statement of the financial condition of the company as of Dec. 31, 1953, as stated by Mr. Alexander, shows deposits at the end of 1953 stood at $687,570,699 compared with $671,241,398, at the close of the previous year, an increase of about 2%. Throughout the year, however, deposits averaged about 4% lower than in 1952, the decrease being almost entirely attributable to lower United States Government deposits. The smaller over-all volume of earning assets, combined with higher operating costs, resulted in a slight decline in net operating earnings, although final net earnings transferred to undivided profits increased about 10%.

Net operating earnings, after Federal income taxes related thereto, amounted to $5,144,574, or $20.58 per share for 1953, compared with $5,178,788, or $20.72 per share, in the preceding year. The company incurred net security losses of $661,633 during the year in the process of readjusting its investment portfolio in line with changing market conditions. Holdings of longer-term U. S. Government and municipal securities were reduced, and the proceeds from these sales were reinvested in shorter-term U. S. Government obligations. The average maturity of the company's investment portfolio at the close of the year was considerably shorter than a year ago. The net loss on investment security transactions was reduced to $231,633 after tax adjustments related thereto. Net earnings transferred to undivided profits amounted to $4,912,941, or $19.65 per share, compared with $4,478,638, or $17.91 per share in 1952. The reserve for possible future losses on loans has reached the maximum amount permitted for purposes of tax deduction under Treasury regulations, and no further additions to this reserve were made in 1953.

The company paid dividends of $10 per share in 1953, the same as in 1952. Combined capital, surplus, and undivided profits increased by $2,412,941, bringing the total at the close of the year to $68,633,263, or $274.53 per share on the 250,000 shares outstanding. This compares with $264.88 per share at the close of 1952.

# Phila. Bond Club to Hold Annual Meeting

PHILADELPHIA, Pa.—The annual meeting of The Bond Club of Philadelphia will be held Friday, Jan. 29, 1954, at the Warwick Hotel, at 7 p.m.

The Nominating Committee, of which Norbert W Marcus of Smith, Barney and Co., is Chairman, has presented the following slate for 1954:

Lawrence M. Stevens

President, Lawrence M. Stevens, Hemphill, Noyes & Co.

Vice-President: Harley L. Rankin, Goldman, Sachs & Co.

Treasurer: Frederick T. Seving, Butcher & Sherrerd.

Secretary: Frederick W. Morris, III, Smith, Barney & Co.

For Governors, one year term: Alfred Rauch, Kidder, Peabody & Co.; two year term: George L. Morris, Hornblower & Weeks; three year term: R. Victor Mosley, Stroud & Co., Incorporated; William Z. Suplee, Suplee, Yeatman & Co., Inc.; and Morris Lloyd, Drexel & Co.

## With Paine, Webber Staff

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio—Charles F. Steinman is with Paine, Webber, Jackson & Curtis, Union Commerce Building.

## Joins Robert Baird Staff

(Special to THE FINANCIAL CHRONICLE)

GREEN BAY, Wis.—Arthur H. A. Dy Chateau is with Robert W. Baird & Co., Inc. He was formerly with Thomas Hundley and the Milwaukee Company.

# Eisenhower Outlines Program in State of the Union Message

**President, in document read before joint session of Congress, tells of progress of last year and outlines aim and proposals for enactment by Congress. Calls for delay in tax cuts; for atomic-age defenses, with reduced military personnel, and a program which would prevent any serious interruption in our prosperity.**

President Dwight D. Eisenhower, on Jan. 7, delivered his second State of the Union Message to a joint session of the Congress. After reciting the progress made by his Administration during the past year, the President outlined its aims for the future, and made a number of proposals to be acted upon by the national legislature.

Pres. Eisenhower

*Portions of the President's message follow:*

It is a high honor again to present to the Congress my views on the State of the Union and to recommend measures to advance the security, prosperity and well-being of the American people.

All branches of this Government—and I venture to say both of our great parties—can support the general objective of the recommendations I make today, for that objective is the building of a stronger America. A nation whose every citizen has good reason for bold hope; where effort is rewarded and prosperity is shared; where freedom expands and peace is secure—that is what I mean by a stronger America.

Toward this objective a real momentum has been developed during this Administration's first year in office. We mean to continue that momentum and to increase it. We mean to build a better future for this nation.

### Past Year's Accomplishments

Much for which we may be thankful has happened during the past year.

First of all we are deeply grateful that our sons no longer die on the distant mountains of Korea. Although they are still called from our homes to military service, they are no longer called to the field of battle.

The nation has just completed the most prosperous year in its history. The damaging effect of inflation on the wages, pensions, salaries and savings of us all has been brought under control. Taxes have begun to go down. The cost of our Government has been reduced and its work proceeds with some 183,000 fewer employees; thus the discouraging trend of modern governments toward their own limitless expansion has in our case been reversed.

The cost of armaments becomes less oppressive as we near our defense goals; yet we are militarily stronger every day. During the year, creation of the new Cabinet Department of Health, Education and Welfare symbolized the Government's permanent concern with the human problems of our citizens.

Segregation in the armed forces and other Federal activities is on the way out. We have also made progress toward its elimination in the District of Columbia. These are steps in the continuing effort to eliminate inter-racial difficulty.

### Cracks in Iron Curtain

Some developments beyond our shores have been equally encouraging. Communist aggression, halted in Korea, continues to meet in Indo-China the vigorous resistance of France and the Associated States, assisted by timely aid from our country. In West Germany, in Iran and in other areas of the world, heartening political victories have been won by the forces of stability and freedom. Slowly but surely, the free world gathers strength. Meanwhile, from behind the Iron Curtain, there are signs that tyranny is in trouble and reminders that its structure is as brittle as its surface is hard.

* * *

American freedom is threatened so long as the world Communist conspiracy exists in its present scope, power and hostility. More closely than ever before, American freedom is interlocked with the freedom of other people. In the unity of the free world lies our best chance to reduce the Communist threat without war. In the task of maintaining this unity and strengthening all its parts, the greatest responsibility falls naturally on those who, like ourselves, retain the most freedom and strength.

We shall, therefore, continue to advance the cause of freedom on foreign fronts.

### Military Aid to Far East

In the Far East, we retain our vital interest in Korea. We have negotiated with the Republic of Korea a mutual security pact which develops our security system for the Pacific and which I shall promptly submit to the Senate for its consent to ratification. We are prepared to meet any renewal of armed aggression in Korea. We shall maintain indefinitely our bases in Okinawa. I shall ask the Congress to authorize continued material assistance to hasten the successful conclusion of the struggle in Indo-China. This assistance will also bring closer the day when the Associated States may enjoy the independence already assured by France. We shall also continue military and economic aid to the Nationalist government of China.

* * *

### Western Europe's Strength

In Western Europe our policy rests firmly on the North Atlantic Treaty. It will remain so based as far ahead as we can see. Within its organization, the building of a united European community, including France and Germany, is vital to a free and self-reliant Europe. This will be promoted by the European Defense Community which offers assurance of European security. With the coming of unity to Western Europe, the assistance this nation can render for the security of Europe and the free world will be multiplied in effectiveness.

### Foreign Assistance

In the Western Hemisphere, we shall continue to develop harmonious and mutually beneficial cooperation with our neighbors. Indeed, solid friendship with all our American neighbors is a cornerstone of our entire policy.

### Confidence in United Nations

In the world as a whole, the United Nations, admittedly still in a state of evolution, means much to the United States. It has given uniquely valuable services in many places where violence threatened. It is the only real world forum where we have the opportunity for international presentation and rebuttal. It is a place where the nations of the world can, if they have the will, take collective action for peace and justice. It is a place where the guilt can be squarely assigned to those who fail to take all necessary steps to keep the peace. The United Nations deserves our continued firm support.

In the practical application of our foreign policy, we enter the field of foreign assistance and trade.

Military assistance must be continued. Technical assistance must be maintained. Economic assistance can be reduced. However, our economic programs in Korea and in a few other critical places of the world are especially important, and I shall ask Congress to continue them in the next fiscal year.

* * *

### To Reduce Foreign Aid

The fact that we can now reduce our foreign economic assistance in many areas is gratifying evidence that its objectives are being achieved. By continuing to surpass her prewar levels of economic activity, Western Europe gains self-reliance. Thus our relationship enters a new phase which can bring results beneficial to our taxpayers and our allies alike, if still another step is taken.

This step is the creation of a healthier and freer system of trade and payments within the free world—a system in which our allies can earn their own way and our own economy can continue to flourish. The free world can no longer afford the kinds of arbitrary restraints on trade that have continued ever since the war. On this problem I shall submit to the Congress detailed recommendations, after our Joint Commission on Foreign Economic Policy has made its report.

### Atomic Peace Program

As we maintain our military strength during the coming year and draw closer the bonds with our Allies, we shall be in an improved position to discuss outstanding issues with the Soviet Union. Indeed we shall be glad to do so whenever there is a reasonable prospect of constructive results. In this spirit the atomic energy proposals of the United States were recently presented to the United Nations General Assembly. A truly constructive Soviet reaction will make possible a new start toward an era of peace, and away from the fatal road toward atomic war.

Since our hope is peace, we owe ourselves and the world a candid explanation of the military measures we are taking to make that peace secure.

As we enter this new year, our military power continues to grow. This power is for our own defense and to deter aggressiion. We shall not be aggressors, but we and our Allies have and will maintain a massive capability to strike back.

* * *

Studies of military manpower have just been completed by the National Security Training Commission and a committee appointed by the Director of the Office of Defense Mobilization. Evident weaknesses exist in the state of readiness and organization of our reserve forces. Measures to correct these weaknesses will be later submitted to the Congress.

### Mobilization Base Formed

The ability to convert swiftly from partial to all-out mobilization is imperative to our security. For the first time, mobilization officials know what the requirements are for 1,000 major items needed for military uses. These data, now being related to civilian requirements and our supply potential, will show us the gaps in our mobilization base. Thus we shall have more realistic plant-expansion and stockpiling goals. We shall speed their attainment. This nation is at last to have an up-to-date mobilization base—the foundation of a sound defense program.

Another part of this foundation is, of course, our continental transport system. Some of our vital heavy materials come increasingly from Canada. Indeed our relations with Canada, happily always close, involve more and more the unbreakable ties of strategic interdependence. Both nations now need the St. Lawrence Seaway for security as well as for economic reasons. I urge the Congress promptly to approve our participation in its construction.

Military and non-military measures for continental defense must be and are being strengthened. In the current fiscal year we are allocating to these purposes an increasing portion of our effort, and in the next fiscal year, we shall spend nearly $1 billion more for them than in 1953.

### Communist Conspiracy

From the special employment standards of the Federal Government I turn now to a matter relating to American citizenship. The subversive character of the Communist party in the United States has been clearly demonstrated in many ways. including court proceedings. We should recognize by law a fact that is plain to all thoughtful citizens—that we are dealing here with actions akin to treason— that when a citizen knowingly participates in the Communist conspiracy he no longer holds allegiance to the United States.

I recommend that Congress enact legislation to provide that a citizen of the United States who is convicted in the courts of hereafter conspiring to advocate the overthrow of this government by force or violence be treated as having, by such act, renounced his allegiance to the United States and forfeited his United States citizenship.

In addition, the Attorney General will soon appear before your committees to present his recommendations for needed additional legal weapons with which to combat subversion in our country and to deal with the question of claimed immunity.

### Strong Domestic Economy

I turn now to the second great purpose of our government: Along with the protection of freedom, the maintenance of a strong and growing economy.

The American economy is one of the wonders of the world. It undergirds our international position, our military security and the standard of living of every citizen. This administration is determined to keep our economy strong and to keep it growing.

At this moment, we are in transition from a wartime to a peacetime economy. I am confident that we can complete this transition without serious interruption in our economic growth. But we shall not leave this vital matter to chance. Economic preparedness is fully as important to the nation as military preparedness.

Subsequent special messages and the economic report on Jan. 28 will set forth plans of the administration and its recommendations for Congressional action. These will include: flexible credit and debt management policies;

*Continued on page 35*

# NYSE Monthly Investment Plan—An Idea for Democratic Capitalism!

By RUDDICK C. LAWRENCE*

Vice-President, The New York Stock Exchange

**NYSE executive sees in new Monthly Investment Plan an idea big enough to help create hundreds of thousands of new investors. Explains features of the Plan and says Press reaction to it has been encouraging. Points out how Plan can be used to sell in special markets and cities examples. Reveals publication of a "Merchandising kit," containing sales advice for helping in selling the Plan. Expresses optimism regarding potential of Plan in broadening market for share ownership.**

The Monthly Investment Plan—which is a product of teamwork among the Member Firms, Odd Lot Houses and the Exchange—is a new way to buy stocks. It is also part of an idea that is big enough to help create hundreds of thousands of new investors. That idea of course is Democratic Capitalism — the conviction that Americans everywhere should have the opportunity to own their share of American business.

Ruddick C. Lawrence

What does the prospect of broadening the market—this potential of many new shareowners—mean in terms of business for you? What can it mean in terms of volume for the Exchange? What is its significance to our economy and its public relations impact on our industry? We don't know the answers yet, but obviously they are going to be important to all of us. And the people who will supply these answers—who will determine the success or failure of the Plan—are you, the producers. That's why we were especially glad to receive your invitation to discuss and answer questions about the market for the Plan, how it works and how you can use it to develop business.

The press reaction is most encouraging. You may have seen the editorial which appeared in the New York "Daily News" a week ago Sunday. To quote:

"We hope this plan will meet with every success, and will spread stock ownership among Americans far more widely than it is spread now.

"One reason for this hope is that we don't like to see a lot of our fellow citizens missing chances to invest in sound, productive and profitable American industries and businesses.

"Another is that we'd like to see the greatest possible number of Americans become vitally interested in maintaining and improving the Capitalist system, and in fighting all persons or groups that want to tear the system down."

As a result of this editorial we have received more than 4,000 letters requesting the booklet "Understanding the New York Stock Exchange." And here is a quote from the Boston "Herald":

"This is the age of the little financier, not the mogul, and we're proud to be part of a nation where the common man can also be a capitalist."

The Chicago "Sun Times" writes:

"Public response indicates that the new Monthly Investment Plan for buying common stocks on the New York Stock Exchange is one of the greatest forward steps ever undertaken by the 'Big Board.'"

So other people seem to think that the Plan should not only win friends for us but should produce business.

### Opening a Tremendous Potential Market

If the Plan is right, we know that a tremendous potential market is open to us. This market is not limited to low income groups. According to United States Treasury figures, more than one-half of the families with incomes between $10 and $25 thousand own no shares at all. Nearly one-third of the families with $25 to $50 thousand incomes own no equity securities.

According to the Brookings Survey, 80% to 90% of such groups as professional men, merchants, manufacturers' representatives, and supervisors, hold no shares in publicly owned companies. Stewart Dougall estimates that only about one out of eight of some 40,000,000 adults who are "financially able" to purchase stocks are current shareowners. To all of these groups, whether they have high incomes or low, the pay-as-you-go technique should have great appeal. This vast, undeveloped market is a target worth shooting at.

### Features of the Plan

Just what is the Monthly Investment Plan — this package which you will be discussing with the public? Some of you have probably had a chance to study it but for those who have not, here is a brief description. The Plan permits the investor to become an owner on a budgeted cash payment basis of any stock of his own choice from among 1,200 stocks listed on the New York Stock Exchange. The only stocks which cannot be bought under the Plan are those traded in less than 100 share lots. The buyer may invest any amount from $40 to $999—monthly or quarterly. He can buy only one stock per Plan. But he can have as many Plans as he wishes.

The investor simply signs a purchase order—not a contract—which states his intention to invest so many dollars—monthly or quarterly — in a certain stock listed on the Exchange. His first remittance and money for subsequent purchases—less commissions—are invested promptly. The exact number of shares (and fractions of a share figured to four decimal places) bought with each payment, are credited to his account.

Each regular payment of, say, $50 will buy you 2.6206 shares of an $18 stock, or 0.2621 fractions of a share of a $180 stock, and also pay the commissions. When the investor has purchased one full share, his rights of ownership are no different from those of the investor who buys 100 or 1,000 shares at a time. He is an owner of the company. The Monthly Investment Plan is simply a method of purchasing shares by the dollar's worth—just as the modern gasoline pump makes it possible to buy one, two or three dollars worth of gas.

Now let's look at some of the Plan's sales points:

**Quality:** The Plan is limited to stocks listed on the New York Stock Exchange.

**No Down Payment or Credit:** You pay as you go.

**Low Cost:** You pay only the customary commission rates. There is no extra charge, no extra commission. Your purchase price will be the first odd lot price of the stock after receipt of each payment in your account. Where the purchase is under $100 the commission is a straight 6% of the amount invested. Where the purchase is $100 or more, the commission is three dollars plus 1%, with a minimum of six dollars.

**Non-contractual:** You can stop whenever you please. At that time your full shares will be registered in your name and mailed to you without charge. Any fractional shares held for you will be sold and a check for the proceeds sent to you. Or you can purchase a fraction to round out your holdings to the next full share.

When your Plan is terminated, you can sell all or any part of the shares you have accumulated, merely by instructing the member firm to do so. You will receive a check for the proceeds, less the customary New York Stock Exchange commission and transfer taxes.

**Convenience:** The entire transaction can be handled by mail.

**Flexible:** You can invest each month or once every three months. If you skip one or two periods, the firm will merely suspend your Plan for you and continue to reinvest or remit your dividends, as you direct. However, member firms reserve the right to terminate the account at any time and would expect to do so if you skip more than four successive purchases.

**Dividends:** They can be mailed to you or automatically reinvested for you, as you direct on the purchase order. You are entitled to your portion of any dividends, rights and special distributions received on your shares or fraction of a share after you have made your first investment.

**Ownership:** You are an owner in the company whose shares you

Continued on page 40

*A talk by Mr. Lawrence before the Association of Customers' Brokers, New York City, Jan. 5, 1954.



# Nuclear Power—The Legal Situation

By E. BLYTHE STASON*

Dean of Law School, University of Michigan

**Specialist on legal problems in application of Atomic Energy Act lists as important deficiencies in this law: (1) lack of a foundation for ownership of facilities; (2) lack of foundation for ownership of fissionable fuels; (3) no provision for accessibility to source materials, and (4) failure to give a right of continuity in business. Discusses ban on private patents in Atomic Energy Act, along with certain other Federal legal problems, as well as problems arising from State laws. Concludes all these legal problems can be solved.**

I have been asked to discuss the legal problems connected with the development of nuclear power by private industry—that is, power produced by privately-owned electric generating plants using nuclear fuels instead of coal, gas, or oil as their heat source. I shall not deal with power plants built by the Atomic Energy Commission. I shall not deal with the legal problems that are common to all privately owned electric power plants, for example, problems of incorporation or financing. I shall confine my discussion to problems that are unique because of the novel source of energy used to turn the generators.

E. Blythe Stason

There are plenty of such unique legal problems. In fact, the scene literally bristles with them. But like all legal problems they can be solved. That is the lawyer's task. We find that there are also plenty of economic and technological problems. The scientist and engineer are gradually resolving the technical difficulties. The business executive, working with the engineer, will, in due time, see to it that the economic problems are handled. Therefore, it is incumbent upon my profession to see to it that legal difficulties do not constitute a barrier to the development for the benefit of mankind of this new form of energy.

Anything like complete discussion of the legal situation will take far more time than the program will allow. The best that I can do is to sketch rather briefly the unique problems with which we shall be confronted, and even more briefly to suggest the nature of the solutions. I shall do so under five subheads.

Continued on page 46

*An address by Mr. Stason at the Annual Meeting of the American Society of Mechanical Engineers, New York City, Dec. 1, 1953.

*LETTER TO THE EDITOR:*

# Mr. Keyserling Explains His Tax Reduction Views

**Former Chairman of Council of Economic Advisers says, in address published in the "Chronicle" on Dec. 31, he placed emphasis on tax reductions "to provide incentives and stimuli."**

*Editor, Commercial and Financial Chronicle:*

I appreciate very much your printing my tax talk of Oct. 16 in the "Chronicle" of Dec. 31. However, the caption "Leave Taxes as They Are" may inadvertently convey the impression that, as of the time of this talk, I was against the individual and corporate reductions scheduled for 1954, and against the removal of the excess profits tax. Quite the contrary is the case, as my emphasis was upon tax reductions to provide incentives and stimuli. What I said, in brief, was the following:

Leon Keyserling

"If defense expenditures should be substantially increased, it would seem to me desirable to adopt legislation bringing the tax structure into line with what it now is, instead of allowing to remain in force the tax reductions scheduled for early next year [1954]. . . . However, I think that the excess profits tax should be allowed to die, because it tends to restrict productive advance. To obtain more revenues if defense expenditures should be increased, renewed and more vigorous efforts should be made to close tax loopholes. In view of the likely economic situation next year [1954], unless defense expenditures were to be increased by many billions of dollars, I would doubt the desirability of trying to increase the tax burden in the aggregate, because this would do more harm to economic progress than it would do good by balancing the budget. . . . On the other hand, if defense outlays should level off or be reduced, in accord with current plans, there will be need for an enormous expansion of consumption to maintain growth in a healthy economy. Under these circumstances, the tax reduction scheduled for early next year should be allowed to remain in force, and the next priority should be a lightening of the tax burden on low income families, either through a raising of the exemptions or in some other way. If signs of an economic recession should become more pronounced, further tax relief should be granted to reactivate the economy, but I do not think that this should be done precipitately because it seems to me that the longer range economic trends are still very strong."

Very truly yours,

LEON H. KEYSERLING

Consulting Economist and Attorney at Law

1001 Connecticut Ave., Northwest

Washington 6, D. C.

Jan. 7, 1954.

# Text of Eisenhower's Message Urging New Farm Price Policy

**In special message to Congress, he outlines program which is designed to achieve stability and growth in farm income over the years. Lists ten fundamental considerations in his program.**

On Jan. 11, President Eisenhower sent to the Congress a special message in which he outlined his plan of flexible farm-price supports, and listed in it a number of recommendations to ease the present agricultural situation.

*The full text of the President's message follows:*

I submit herewith for the consideration of the Congress a number of recommendations affecting the nation's agriculture.

## PART I

The agricultural problem today is as serious and complex as any with which the Congress will deal in this session. Immediate action is needed to arrest the growing threat to our present agricultural program and to prevent the subsequent economic distress that could follow in our farming areas. I have given assurance to the American farmer that support of existing agricultural laws, including continuance through 1954 of price supports on basic commodities at 90% of parity, was a moral and legal commitment that must be upheld. Along with the fulfillment of this commitment, an unending effort has proceeded in the past 12 months to provide the American farmer his full share of the income produced by a stable, prosperous country. This effort requires for success a new farm program adjusted to existing conditions in the nation's agriculture.

Pres. Eisenhower

This message presents to the Congress that new program. It is designed to achieve the stability and growth in income over the years to which our farmers are entitled and which the nation must assure in the interest of all 160,000,000 of our people.

### Studies of the Problem

In constructing its program, this Administration resolved to get the benefit of the best thinking of the nation's farmers, as well as that of its farm experts. Over 60 different survey groups, and more than 500 of the most eminent farm leaders in the country, have participated in these studies. Agricultural colleges and research institutions contributed their work and thought. Scores of producer, processor and trade groups, as well as national farm organizations, gave their findings and proposals. Mail from thousands of individual farmers, and opinion polls among farmers, have been analyzed and weighed. The bipartisan, broadly-representative National Agricultural Advisory Commission has steadily worked and consulted on the problem for the past 12 months. Numerous commodity organizations have been consulted. Many members of the Congress have shared their own rich experience in this effort. Accordingly, as promised a year ago, the most thorough and comprehensive study ever made of the farm problem and of governmental farm programs has been completed.

### Recommendations by Commodity

The recommendations which have been reaped from all this inquiry are in the best traditions of bipartisan approach to the Nation's agricultural legislation. They recognize that each farm crop has its own problems and that these problems require specific treatment. Accordingly Part II of this message presents detailed proposals for the treatment of 16 commodities or commodity groups. I here confine myself to those aspects of the farm program in which all farmers and all citizens are equally concerned.

### Some Fundamental Considerations

In its approach to this problem, the Administration has held to the following fundamentals:

(1) A stable, prosperous and free agriculture is essential to the welfare of the United States.

(2) A farm program must fairly represent the interests of both producers and consumers.

(3) However large surpluses may be, food once produced must not be destroyed. Excessive stocks can be removed from commercial channels for constructive purposes that will benefit the people of the United States and our friends abroad.

(4) For many reasons farm products are subject to wider price fluctuations than are most other commodities. Moreover, the individual farmer or rancher has less control over the prices he receives than do producers in most other industries. Government price supports must, therefore, be provided in order to bring needed stability to farm income and farm production.

(5) A farm program first of all should assist agriculture to earn its proportionate share of the national income. It must likewise aim at stability in farm income. There should therefore be no wide year-to-year fluctuation in the level of price support.

(6) No single program can apply uniformly to the whole farm industry. Some farm products are perishable, some are not; some farms consume the products of other farms; some foods and fibers we export, some we import. A comprehensive farm program must be adaptable to these and other differences, and yet not penalize one group of farmers in order to benefit another.

(7) A workable farm program must give the Administration sufficient leeway to make timely changes in policies and methods, including price support levels, within limits established by law. This will enable the Administration to foresee and forestall new difficulties in our agriculture, rather than to attempt their legislative cure after they have arisen.

(8) Adjustment to a new farm program must be accomplished gradually in the interest of the nation's farming population and in the interest of the economy of the nation as a whole.

(9) Research and education, basic functions of the Department of Agriculture since its beginning, are still indispensable if our farmers are to improve their productivity and enlarge their markets.

(10) The soil, water, range and forest resources of the United States are the natural foundation of our national economy. From them come our food, most of our clothing, much of our shelter. How well we protect and improve these resources will have a direct bearing on the future standard of living of the whole nation.

### The Present Agricultural Situation

Present laws discourage increased consumption of wheat, corn, cotton and vegetable oils and encourage their excessive production. The huge and growing surpluses held by the government act as a constant threat to normal markets for these products. Thus, present law produces results which in turn are hurtful to those whom the laws are intended to help. Partly because of these excessive stocks, farm income has fallen steadily over the past three years.

The urgency in this situation may be illustrated by a few basic facts. During the past year, the investment of the Commodity Credit Corporation in farm commodities more than doubled, increasing by about $2,500,000,000. As a result the financial obligations of the corporation are pressing hard against the $6,750,000,000 limitation on its borrowing authority. In order to assure that present price support commitments on 1953 and 1954 crops will be covered, I shall request the Congress to take early action to restore the corporation's capital losses as of June 30, 1953, and to increase its borrowing authority to $8,500,000,000, effective July 1, 1954.

The government's commodity holdings are enormous. It has investments in more than $2,000,000,000 worth of wheat alone. This includes 440,000,000 bushels owned outright. About 400,000,000 additional bushels are under loan, the greater share of which the government can expect to acquire. This is more than the domestic wheat requirements of the entire nation for a full year.

The cotton carry-over will amount to about 9,600,000 bales. Here again the carry-over is approximately equal to the domestic needs of the entire nation for a full year.

The carry-over vegetable oils may be about 1,500,000,000 pounds, roughly double the carry-over that should normally be maintained.

Because such tremendous supplies are already in hand, acreage allotments and marketing quotas have had to be applied to wheat and cotton. An appeal by the government for sharp acreage reductions for corn appears unavoidable. These allotments are expected to reduce the acreage planted to these crops in 1954 by the following amounts: wheat, 16.5 million acres; corn, between 5 and 6 million acres; cotton, 3.5 million acres. Without the most careful handling, a diversion within a single year of 25 million acres of productive crop land — about 8% of the total—from their accustomed use could have the most unfortunate impact on the total economy.

Even these reductions probably will not appreciably lower the surpluses of wheat and cotton because of the likelihood of increased yields that will be sought from the reduced acreage, and because markets will continue to shrink as a consequence of rigid price supports. As for corn, it is estimated that enough diverted land will be used for oats, barley, and sorghums to hold total supplies of feed grains at present levels, thus largely offsetting the purpose of the corn acreage reduction. It is also expected that some 3,000,000 diverted acres may be planted to soybeans, thus aggravating the tremendous oversupply of vegetable oils. The likely production from other diverted acres threatens producers of potatoes, sugar beets, rice, alfalfa, flaxseed, vegetables and many other crops. Therefore, we must move without further delay to treat the fundamental causes of our present excess supplies of farm commodities.

The nation's agricultural problem is not one of general overproduction: Consumer demand continues at or near record high levels; the average prices of farm products that lack direct price supports have been as high in recent years as those of price-supported products. The problem is rather one of unbalanced farm production, resulting in specific surpluses which are unavoidable under the present rigid price supports. The problem is complicated by the continuing loss of some of those foreign markets on which American agriculture has depended for a large part of its prosperity.

### Major Features of Farm Program

The new farm program here proposed is consistent with all the foregoing conditions and fundamental considerations. It has five major features:

(1) The new program should first be given an opportunity to start operating without the handicap of such large accumulated surpluses. This is to be done by setting aside certain quantities of our surplus commodities, eliminating them from price support computations.

(2) The 1948 and 1949 Agricultural Acts were soundly conceived and received bipartisan support. The principles on which they were based are particularly applicable to the agricultural industry today. Although based generally upon those principles, the proposed agricultural legislation of 1954 contains certain new features, improvements and modifications.

(3) The amendment to the 1949 Agricultural Act providing for mandatory rigid supports, attuned to war needs and demonstrably unworkable in peacetime, will be permitted to expire. After the 1954 crops the level of price supports for the basic commodities will be gradually related to supply, promising farmers greater stability of income.

(4) Modernized parity is to become effective for all commodities on Jan. 1, 1956, as scheduled by law. Provision should be made for moving from the old to modernized parity in steps of five percentage points of the old parity per year until the change from old to modernized parity has been accomplished.

(5) The key element of the new program is a gradual adjustment to new circumstances and conditions. Application of modernized parity and the relation of basic crops to supply levels require a transition period to assure a stable farm economy. This transition should be accomplished in a prudent and careful manner to avoid sharp adjustments which would threaten the dislocation of the program.

(6) In keeping with the policy of gradual transition, the Secretary of Agriculture will use his authority under the Agricultural Act of 1949 to insure that year-to-year variations in price support levels will be limited.

(7) The authority of the Secretary of Agriculture to apply price supports at more than 90% of parity when the national welfare or national security requires should be continued.

### Parity and Price Supports

Under the provisions of the Agricultural Acts of 1948 and 1949 the government will:

(1) Support the prices of basic crops of those farmers who cooperate with acreage allotments and marketing quotas when such are in effect;

(2) Announce the price support level for various crops before those crops are planted, insofar as practicable;

(3) Support price levels at up to 90% of parity. For some products a schedule of price floors will also be provided as authorized by the 1949 Act, ranging from 75% to 90% of parity, according to the relationship of total to normal supply; and

(4) Vary the price support level one percentage point for every two percentage points of variation

*Continued on page 18*

*Continued from page 17*

# Text of Eisenhower's Message Urging New Farm Price Policy

in the total supply. If the supply is short, higher support levels will encourage production. If the supply is overabundant, a lowered price will stimulate consumption. Thus, not only will a floor be placed under all basic crop prices, but variations in price and supply will tend to offset each other, and thus stabilize the income of the farmer.

**Modernized Parity**

Parity calculations for most commodities under the old formula are based upon price relationships and buying habits of 40 years ago. Because methods of farm production have changed markedly, the Congress has wisely brought the parity concept up to date. Modernized parity takes account of price relationships during the most recent 10 years. It permits changes in farm technology and in consumer demand to express themselves in the level of price support and restores proper relationships among commodities.

For the basic commodities, the law provides that until Jan. 1, 1956, the old or modernized parity, whichever is higher, shall be used. For all commodities except wheat, corn, cotton and peanuts, modernized parity is already in use.

Equitable treatment of the various commodities requires that we should use modernized parity for all farm products as now provided by law, beginning Jan. 1, 1956.

**Insulation of Surpluses from Markets**

Removal of the threat of huge surpluses of farm commodities from current markets is an essential part of the program here presented. Destruction of surplus commodities cannot be countenanced under any circumstances. They can be insulated from the commercial markets and used in constructive ways. Such uses will include school lunch programs, disaster relief, aid to the people of other countries, and stockpiled reserves at home for use in war or national emergency.

I recommend that authority be provided to set aside reserves up to the value of $2,500,000,000 from the stocks presently held by the Commodity Credit Corporation. Broad discretionary authority should be provided to manage these "frozen" reserves. This authority should be coupled with legislative safeguards to prevent the return of these stocks to domestic or foreign markets so as to cause disturbance in normal trade. Perishable stocks should of course be rotated. Stocks of wheat, cotton, vegetable oils and possibly some dairy products should be set aside after this program takes effect.

The special circumstances relating to the crop and the date of initiating the proposed new program should govern the time for establishing each such commodity reserve. This reserve program will be effective only if it is carefully integrated with the new program as a whole. The insulation of our excess reserves of food and fiber is an essential first step in launching this new program.

**Expansion of Farm Markets Abroad**

One of our largest potential outlets for present surpluses is in friendly countries. Much impetus can be given to the use of a substantial volume of these commodities by substituting to the maximum extent food and fiber surpluses in foreign economic assistance and disaster relief. I shall request a continuation of the authority to use agricultural surpluses for this purpose.

It is not enough, however, to rely solely on these measures to move surpluses into consumption. No farm program should overlook continued economic growth and expansion. By revolutionary increases in farm productivity during and since World War II, American farmers have prepared our nation to supply an ever greater proportion of the food needs of the world. Developing commercial markets for this expanded production is part of the larger problem of organizing a freer system of trade and payments throughout the free world. Because our farmers depend to a considerable degree on foreign markets their interest will be particularly served by strengthening of the work of the Department of Agriculture in developing market outlets both at home and abroad. In my Budget Message I shall recommend that sufficient funds be appropriated for this purpose.

Meanwhile, a series of trade missions, working in cooperation with our representation overseas, will be sent from the United States, one to Europe, one to Asia, one to South America, to explore the immediate possibilities of expanding international trade in food and fiber. Moreover, the Secretary of Agriculture, in cooperation with the Secretary of State, is organizing discussions for the exchange of views with foreign ministers of agriculture on subjects affecting the use of agricultural surpluses and stockpiles.

**Use of Diverted Acres**

In addition to the removal of surpluses and the expansion of markets, special measures must be taken to deal with the use of acreages diverted from crops under allotment. To avoid these difficulties, the number of diverted acres must be reduced to minimum. The proposed program accomplishes this by increasing the utilization of commodities, thereby reduced the need for acreage restrictions.

When land must be diverted from production, it is essential that its use be related to the basic objectives of soil conservation—to protect and to improve that land. Wherever acreage adjustments are especially difficult, Agricultural Conservation Program funds will be used to help farmers make these adjustments in a manner that will advance soil conservation and long-term efficiency.

**Small Farms**

The chief beneficiaries of our price support policies have been the 2,000,000 larger, highly mechanized farming units which produce about 85% of our agricultural output. The individual production of the remaining farms, numbering about 3,500,000, is so small that the farmer derives little benefit from price supports. During 1954 the Secretary of Agriculture, in cooperation with the National Agricultural Advisory Commission, will give further special attention to the problems peculiar to small farmers.

**Conclusion**

The agricultural program proposed in this section, and in Part II which follows, will open new market outlets both at home and abroad, not only for current supplies but for future production. It will provide a firm floor on which our farmers can rely while making long-term plans for efficient production and marketing. Year in and year out, it will provide the best prospects for the stability and growth of farm income.

It will help the farmer attain full parity in the market. It will avoid creating burdensome surpluses. It will curtail the regimentation of production planning, lessen the problem of diverted acreage, and yield farmers greater freedom of choice and action.

It will bring farm production into closer balance with consumer needs. It will promote agricultural interests, along with the public interest generally. It will avoid any sharp year to year change in prices and incomes.

The program will again stimulate and encourage good farm management. It will prevent arbitrary government control and afford the greatest freedom to the individual farmer. It will provide added incentive to make wise use of all our agricultural resources, and promises the nation's agriculture a more stable and reliable financial return than any alternative plan.

I urge its early approval by the Congress.

## PART II

In this part of the Special Message the principles developed in Part I are applied to specific commodities and commodity groups.

### Wheat

Wheat is a prime example of the results that ensue from a support program which fails to adjust to the level of demand. As of Dec. 16, more than $2,000,000,000 of Commodity Credit Corporation funds were invested in wheat.

The export market, historically vital to our wheat farmers, was itself partly responsible for the expanded production of American wheat during the war and postwar years. To meet the food needs of devastated countries, our farmers continued their high level of production after the war and thus rendered a great service to humanity and to the cause of freedom throughout the world. These expanded outlets have since greatly diminished. Yet the support price has remained at the level associated with wartime needs. The result is that production has continued at wartime levels and, annually, more and more of this production has become surplus.

In foreign markets, the high rigid support program of the United States has become an umbrella for competitors. This has created an artificial competitive situation which has cost the American farmer a substantial part of his world wheat market. During the past two years our exports of wheat outside the International Wheat Agreement have fallen from 220 million bushels to 64 million, while Canada's free market sales have risen from 105 to 161 million bushels. Thus our price policy shrinks the very market that could otherwise help absorb our excess stocks of wheat.

Continuance of present price support levels for wheat would confront us with two undesirable alternatives:

(1) Curtail production to the amount needed for domestic use and very limited exports. This would require a reduction in wheat acreage of about 40%—from the 79 million acres planted in 1953 to between 45 and 50 million acres.

(2) Subsidize the consumption of wheat by increasingly severe burdens upon the taxpayer.

The foregoing alternatives make it increasingly clear that the nation must depart from the high rigid support level for wheat.

It is, therefore, recommended that:

(1) A substantial part of the present excessive wheat carryover be set aside as an emergency reserve and removed from the market.

(2) After the 1954 crop, the level of price support for wheat be related to supply. Because of the substantial set-aside, computations of the support level under the Agricultural Act of 1949 would insure that changes in support levels would be gradual. The Secretary of Agriculture will use his authority under the Agricultural Act of 1949 to insure that year-to-year variations in price support levels will be limited.

(3) Beginning Jan. 1, 1956, a change be made at the rate of 5% a year from old to modernized parity;

(4) Acreage allotments and marketing quotas be continued, with the anticipation, however, that adjusted support levels will increase the incentive to employ some of the present wheat land for other purposes.

### Rice

Price supports for rice at 90% of parity have had no recent application. Market prices have been at or above support levels; restraints on production have not been needed; stocks have not accumulated. Nevertheless, present price supports for rice can inhibit an adjustment, if one should be needed, in the same manner that they prevented the adjustment for wheat, when it was needed.

It is therefore recommended that mandatory price supports at 90% of parity for rice be allowed to expire after the 1954 crop.

### Corn

Corn is a dominant factor in the feed-grain-livestock economy. This economy is based on an interdependent process involving the production of feed, its conversion into livestock products, and its movement into consumption as meat, dairy products and eggs. To hold this economy in balance, prices are a critical factor, encouraging and discouraging livestock production by turns, rationing feed when it is scarce and moving it into use when it is plentiful. For the efficient use of corn, some price freedom is indispensable.

A program of high rigid price supports for feed grains involves the danger of curtailing our livestock industries and limiting the quantity of their products to consumers. We have made great strides in improving the efficiency of corn production and in passing some of those gains on to consumers in the form of reasonably priced livestock products. Our corn support program should be designed to encourage those trends.

Corn is used in the same manner as pasture and hay on farms where grown. Seldom does more than 25% of our corn crop move through commercial channels, and the bulk of this is eventually used as feed by other farmers. Farmers, therefore, are the principal users of corn. It follows that a high support price for farmers who produce corn for sale aggravates the cost-price squeeze on other farmers who normally buy corn and competing feeds to produce livestock products.

To guide the corn price support program, the adjustable price and income-balancing features of the Agricultural Act of 1949 on the whole are well suited. The level of support specified is designed to move corn into use. Livestock producers are assured of a steady supply of feed at reasonable prices.

The old parity formula holds the support price for corn too high in relation to livestock prices. Use of modernized parity, scheduled by law to become effective on Jan. 1, 1956, will help to balance these vital price relationships.

It is, therefore, recommended that:

(1) Modernized parity for corn become effective on Jan. 1, 1956, with modification limiting the rate of the transition to 5% in any single year;

(2) Except as provided in (3) and (4) the provisions of the Agricultural Act of 1949 become effective for the corn crop of 1955 and subsequent crops;

(3) The Act of 1949 be amended to provide a change, within the range of 75 to 90% of parity, of one percentage point in the support price for corn for each one percentage point of change in supply, thereby giving greater flexibility to corn support prices and tending to prevent the building up of excessive holdings by government;

(4) Legislation be enacted to raise the normal carryover allowance for corn from 10% to 15% of domestic use plus exports, to become effective for 1955 and subsequent crops. This would help to assure more stable feed supplies and reduce the impact of current carryover stocks on future production controls and support levels;

(5) Upon adoption of the foregoing recommendations, the system of marketing quotas be abolished.

### Feed Grains Other Than Corn

The Agricultural Act of 1949 authorizes price support for such non-basis crops as oats, barley, and grain sorghums at not to exceed 90% of the parity price. The amounts, terms and conditions of price support operations and the extent to which these operations are carried out are determined or approved by the Secretary of Agriculture upon consideration of various factors specified in the law.

Inasmuch as this program has worked satisfactorily, it is recommended that these provisions be continued.

### Meat Animals

The fact that mandatory price supports are ill adapted to meat animals has been recognized by Secretaries of Agriculture for years. The present law provides tools well adapted to deal with the problems peculiar to the livestock industry.

It is recommended, therefore, that the existing conditions with respect to meat animals be continued.

### Dairy Products

The Agricultural Act of 1949 requires price support for dairy products at such levels between 75 and 90% of parity as are necessary to assure an adequate supply. Sufficient discretionary authority is provided to operate a satisfactory program.

It is recommended that these provisions of law be continued.

### Poultry and Eggs

Price supports have not been generally desired by the poultry industry. Temporarily, and in special circumstances, price supports can, however, be helpful.

It is recommended, therefore, that:

(1) Provisions of the 1949 Act be continued for poultry and eggs, with discretionary authority for the Secretary of Agriculture to support prices at not to exceed 90% of parity;

(2) Discretionary authority be continued to purchase poultry products for use in the school lunch program, in non-profit institutions, and for certain other purposes.

### Cotton

Cotton, like wheat, is an export crop whose price is currently supported above the world level. Carryover stocks in the United States have been accumulating rapidly in the past two years. These stocks, probably close to 9,600,000 bales by next August, will approximate a full year's domestic requirements.

Our high rigid price support program stimulates competition of foreign producers and reduces exports. During the '20s and early '30s our net exports of cotton generally exceeded domestic consumption. Current exports amount to hardly a third of our larger domestic requirements.

Our problem is to develop a program which will help growers adjust gradually to changing circumstances, including foreign and domestic competition of rising intensity.

The Agricultural Act of 1949 provides price supports for cotton at a level between 75% and 90% of parity, dependent on the supply. Thus changes in supply and price would tend to offset one another, giving a relatively stable income. This plan will allow limited price variation, thus affording growers reasonable market stability and yet offering added inducement for heavier use of cotton in years of abundant supplies.

Separate legislation has made the adjustable pricing provisions of the 1949 Act ineffective for cotton. The Secretary of Agriculture is now required by law to set such marketing quotas and allotments that the required price support level can seldom if ever fall below 90% of parity. Instead of relying in part on the schedule of price floors intended in the Act of 1949, the law requires reliance almost entirely on production controls.

It is recommended, therefore, that:

(1) A substantial part of the present large carryover of cotton now in prospect be set aside as an emergency reserve and removed from the market.

(2) After the 1954 crop, the level of price support for cotton be related to supply. Because of the substantial set-aside, computations of the support levels, under the Agricultural Act of 1949, would insure that changes in support levels would be gradual. The Secretary of Agriculture will use his authority under the Agricultural Act of 1949 to insure that year-to-year variations in price support levels will be limited.

(3) Modernized parity becomes effective for cotton as scheduled on Jan. 1, 1956.

(4) The Congress repeal the present provisions whereby the maximum use of production restrictions before there can be any reduction of the price support level is required.

### Tobacco

Tobacco farmers have demonstrated their ability to hold production in line with demand at the supported price without loss to the government. The relatively small acreage of tobacco and the limited areas to which it is adapted have made production control easier than for other crops.

The level of support to cooperators is 90% of the parity price in any year in which marketing quotas are in effect.

It is recommended that the tobacco program be continued in its present form.

### Peanuts

The law requires that mandatory 90% supports for peanuts continue through 1954 and that old parity remain in effect until the end of 1955.

This program, which has experienced some difficulties in adjusting supplies to demand at the supported price, can operate successfully with certain changes.

It is recommended that:

(1) The Agricultural Act of 1949 become effective for peanuts on Jan. 1, 1955.

(2) The shift to modernized parity for peanuts begins as now provided by law on Jan. 1, 1956.

(3) A transitional provision be provided to limit the change from the old to modernized parity to not more than 5% per year.

### Tung Nuts and Honey

Tung nuts and honey should be in the same category with other products for which price supports are permissive rather than required. It is recommended, therefore, that the mandatory price supports for these commodities be discontinued.

### Oil Seeds

Price support is authorized for soybeans, cottonseed and flax at not to exceed 90% of the parity price. It is recommended that the provisions of the Agricultural Act of 1949 be continued for these commodities.

### Fruits and Vegetables

Existing law authorizes the use of 30% of general tariff revenues to encourage the exportation and domestic consumption of agricultural commodities. In the event of market distress these funds may be used for limited purchases of market surpluses of such perishable commodities as fruits and vegetables. No purchases may be undertaken unless outlets are available.

It is recommended that:

(1) Present provisions for the use of funds from tariff revenues be continued.

(2) Authorization for the use of marketing agreements be continued and liberalized to

(a) provide for inclusion of additional commodities to which marketing agreements are adapted;

(b) enlarge and clarify the authorization for agencies established under marketing orders to engage in or finance, within reasonable limits, research work from funds collected pursuant to the marketing order;

(c) provide for the continuous operation of marketing agreements, despite short-term price variations, where necessary to assure orderly distribution throughout the marketing season; and

(d) enlarge and clarify the authorization for the use of marketing orders to promote marketing efficiency, including the regulation of containers and types of pack for fresh fruits and vegetables.

### Potatoes

It is recommended that legislation be enacted to allow assistance to potato growers in the same manner as is available for producers of other vegetables and of fruits.

### Sugar

The sugar program, extended in 1951, is operating in a generally satisfactory manner. It is recommended that this program be continued in its present form.

### Wool

Price support for wool above the market level has resulted in heavy accumulations of wool — now nearly 100 million pounds — by the Commodity Credit Corporation and the substitution of imported for domestic wool in our home consumption. Two-thirds of the wool used in the United States is imported; yet our own wool piles up in storage.

A program is needed which will assure equitable returns to growers and encourage efficient production and marketing. It should require a minimum of governmental interference with both producers and processors, entail a minimum of cost to taxpayers and consumers; and align itself compatibly with over-all farm and international trade policies.

It is recommended that:

(1) Prices of domestically produced wool be permitted to seek their level in the market, competing with other fibers and with imported wool, thus resulting in only one price for wool—the market price;

(2) Direct payments be made to domestic producers sufficient, when added to the average market price for the season, to raise the average return per pound to 90% of parity;

(3) Each producer receive the same support payment per pound of wool, rather than a variable rate depending upon the market price he has obtained. If each grower is allowed his rewards from the market, efficient production and marketing will be encouraged. This has the further advantage of avoiding the need for governmental loans, purchases, storage, or other regulation or interference with the market. Further, it imposes no need for periodic action to control imports in order to protect the domestic price support program.

(4) Funds to meet wool payments be taken from general revenues within the amount of unobligated tariff receipts from wool.

(5) Similar methods of support be adopted for pulled wool and for mohair, with proper regard for the relationships of their prices to those of similar commodities.

DWIGHT D. EISENHOWER

The White House,
Jan. 11, 1954

## Nat'l Analysts Group To Meet in Chicago

CHICAGO, Ill. — The National Federation of Financial Analysts Societies will hold its seventh annual convention, May 16 to 20, at the Palmer House. Featured will be forums on the chemical industry, atomic energy, automation, public utilities, and institutional investing.

Members of the Program Committee are Albert Y. Bingham, Arthur J. O'Harr, Corliss Anderson, Glenn Miller, and Wayne Bennett.

## Reg Halladay

Reg Halladay, partner in the New York Stock Exchange firm of Halladay & Co., New York City, passed away, Dec. 30.

## American Stock Exch. to Remain Open 3 Holidays

The Board of Governors of the American Stock Exchange determined at its meeting today that it was its intention not to vote to close the Exchange on Feb. 12 (Lincoln's Birthday), Oct. 12 (Columbus Day), and Nov. 11 (Armistice Day) as has been their policy heretofore.

## Foley Trading Mgr. For Rex Merrick & Co.

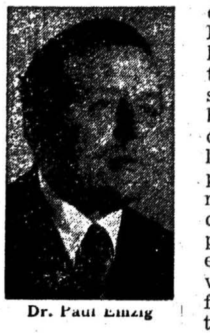
SAN MATEO, Calif.—Thomas F. Foley is now managing the trading department of Rex Merrick & Co., 22 Second Avenue. Mr. Foley was previously with Hooker & Fay in San Francisco, and Waldron & Co., San Francisco.

# Recession Not Likely in Britain

By PAUL EINZIG

**Dr. Einzig, commenting on prosperous conditions in Britain, says experience there proves conclusively that cheap money is not indispensable to prosperity. Notes increase in Bank of England rate in 1953, and warns against danger of too great optimism, "which is likely to be anything but helpful."**

LONDON, Eng.—The year 1953 ended in an atmosphere of moderate pessimism as far as the American business situation and outlook is concerned. In Britain itself, however, there is no sign of any business recession. Earlier in the past year a marked decline of exports and of employment was forecast for the autumn and winter. These gloomy forecasts did not materialize. The index of industrial production showed a steady increase of the output, distinctly above the previous high level reached in 1951 before the setback of 1952. Although exports leave much to be desired, they appear to be adequate to cover import requirements, judging by the small but almost continuous influx of gold registered month after month.



Dr. Paul Einzig

The experience of Britain in 1953 conclusively proves that cheap money is not an indispensable condition of prosperity. Interest rates remained relatively high throughout the year. The Bank rate was only lowered by ½% and is still 1½% above the level at which it was maintained during 20 years of "cheap money." On the basis of both Keynesian and pre-Keynesian beliefs this should have meant a reduced employment and a lower output. Instead, employment is once more as high as during the cheap money period, and the industrial output has resumed its increase temporarily interrupted during 1952.

It appears that, while the increase of the Bank rate to 4% was followed by an increase of unemployment and a decline of production, its maintenance at a high level did not prevent a recovery. Indeed it seems doubtful whether the temporary setback was to a large degree due to higher interest rates. Tighter money conditions resulting from the officially-inspired efforts of the banks to reduce their credits to the private sector of the community must have been a more important factor in causing a decline of production than the higher cost of the bank loans. Moreover, import cuts by British Dominions and other countries during 1952 played their part in causing a reduction of employment, especially in the textile industry.

The efforts to reduce bank credits to the private sector of the economy continued in 1953. While advances showed a decline, however, deposits actually increased, largely as a result of increased government expenditure on housing and rearmament. This means that, in spite of the reduction of bank advances, more money was available for the requirements of trade. Had official monetary policy resisted the trend toward an expansion of bank money, it would probably have affected the volume of production and employment. As it is, the higher interest charges did not seem to have prevented industry from maintaining and even increasing its activities.

The increase of building activity in face of higher interest rates is particularly striking. It is true, most of the 310,000 houses completed in 1953 were built by the authorities themselves. Nevertheless, the proportion of privately-built houses to the total number completed in 1953 showed a remarkable increase. Yet it has always been regarded as almost axiomatic that the building industry is the first to be affected by an increase of interest rates. The reason why it failed to conform to this rule in 1953 lies in the strong demand for housing accommodation, as a result of which it is possible to dispose of houses profitably in spite of the higher cost of the financial transactions involved.

It is of course arguable that circumstances of the building industry are special. But the fact that most other industries showed improvements during the past year shows that relatively high interest rates are, in themselves, no bar to prosperity.

The explanation is that high interest rates have failed to reverse inflation, or even check it. Although the cost of living has been fairly steady in 1953, this was because of the fall in the prices of imported food and raw materials has largely neutralized the effect of the rise in the cost of production in Britain on the cost of living. This means that the increase of the consumers' purchasing power has not been offset by a corresponding increase in prices. There has been, consequently, an increase in domestic consumption. Beyond doubt this is the aspect of the British economic situation that is causing the most concern. For it tends to affect adversely Britain's balance of payments. In its annual report the Organization of European Economic Cooperation lays particular stress on this point.

Unfortunately the absence of a recession and the indications of prosperity gave rise to an atmosphere of optimism which is likely to be anything but helpful. The decline of unemployment has strengthened the bargaining position of employees whose Trades Unions are now pressing for higher wages. The government has already yielded the pressure as far as the employees of the nationalized British Railways are concerned. The granting of similar increases to other claimants would inevitably increase domestic consumption, leading to more imports and less exports. World market conditions are not such as to make it possible to maintain exports in spite of the higher cost of production.

Paradoxically enough, the absence of a business recession in Britain may therefore lead to an adverse change in the balance of payments in 1954. A moderate recession, though its effect on wages claims and domestic consumption, would assist materially toward maintaining an export surplus and strengthening the none too large gold reserve. It may well be asked, therefore, whether in existing conditions Britain can really afford to be as prosperous as she is at present.

## With Hemphill, Noyes

ALTOONA, Pa.—Anthony Misciagna has become associated with the New York Stock Exchange firm of Hemphill, Noyes & Co. in charge of their newly opened office in that city. Mr. Misciagna was previously with Warren W. York & Co., Inc.

# *Our Reporter on Governments*

By JOHN T. CHIPPENDALE, JR.

Despite the many cross currents that have been appearing in the government market from time to time because of the various messages by the President of the United States and the reconvening of the Congress, the underlying attitude is very definitely on the favorable side. It is evident that many money market specialists are of the opinion that more money will be available for investment in government securities as time goes along. Likewise, the belief is growing that interest rates will continue to decline as the year gets older. These two factors seem to be the really important ones in the government market at this time and they are definitely on the bullish side of the situation.

The impending refunding is creating a mildly cautious attitude among the middle maturities with very little effect noticeable in the longer maturities, even though securities in both of these ranges are considered likely candidates in the basket offering that is expected.

### Market Aided by Loan Down Trend

Commercial banks in not a few of the areas away from the large money centers, according to advices, have experienced what is termed important changes in the loan trend. Not only have ther been repayments of loans but the looked-for increase in borrowings has failed to materialize and, as a result of this condition, many of the smaller out-of-town institutions have come into the market in the quest of government securities. It had been indicated that the purchases of the smaller commercial banks of Treasury securities had been mainly in the intermediate maturities, especially in the issues which were still selling at a discount.

Although there is good buying in these middle term obligations, it is reported that the volume has receded somewhat because of the opinion that it might be prudent to wait and see what kind of an intermediate term obligation will be a part of the impending refunding package before making further commitments in these securities.

### Long 2½s in Demand

Even though there have been not a few opinions expressed by money market specialists that the coming refunding will be a rather "full basket" operation, and in it will be securities that are characterized as longer than the intermediate term issues (which would bring the maturity in the neighborhood of the outstanding long 2½s) there has been no noticeable let-up in demand for the eligible bonds. It seems as though the out-of-town deposit institutions are coming into the market for the long-term 2½s without much fear of what might develop later on in the maturity range of the presently outstanding bonds. These banks must put funds to work in order to protect earnings which have been adversely affected by the current trend of loans.

In addition, many of these institutions were in the market in the not too distant past for the longer eligible bonds and because of a too cautious attitude missed these securities at prices that would look very good in their holdings today. Therefore, despite the opinions that future refundings will include bonds that will fall in the maturity range of the outstanding ones, the deposit banks that have money to put to work are not taking any chances this time of missing the longer 2½s because they are buying them at currently prevailing prices.

### Small Life Companies Active

Although the out-of-town commercial banks have been the leading buyers of government securities, all along the line from the shortest to the longest maturities, there has been and most likely will be considerable competition from other institutional investors. It has been reported that some of the smaller life insurance companies have come into the market recently in a much more substantial way than had been expected by certain money market followers. This buying, according to reports, has been largely in the discount long-term 2½s, although there has been some important purchases of the 3¼s done by these same institutions.

### Pension Funds Seek 3¼s

The pension funds, both private and public, continue to be the main buyers of the more distant maturities with the 3¼% bond still the most sought after issue with certain of these funds. On the other hand, it is more evident that the longer-term discount obligations are getting greater attention from these funds even though the yield is not as good in the longer 2½s that are selling under 100 when compared with the 3¼s due 6/15/78-83. Also there are indications that quite a few owners of the longest Treasury issue have been sellers of this bond, with the proceeds going mainly into the discount long-term 2½s. Profit taking has been reported in many sections of the list, but the investment buying has been sizable enough to take this selling right in stride.

# Inv. Cos. Assn. Appoints Information Committee

The National Association of Investment Companies has announced that at the regular quarterly meeting of the Executive Committee a Public Information Committee was appointed for the purpose of expanding the activities of the Assocation in the public information and education field. The Committee will elect its own Chairman.

It was announced also that closed-end companies, and open-end companies and their underwriters, representing 90% of the total assets of all members of the Association, have become participants in and have indicated their support of the program.

The following were appointed as the members of the Public Information Committee:

Harold K. Bradford, President, Investors Mutual, Inc.; Robert E. Clark, Vice-President, Dividend Shares, Inc.; A. R. Hughes, Lord, Abbett & Co.; Dorsey Richardson, Vice-President, The Lehman Corporation; S. L. Sholley, President, The Keystone Company of Boston; Henry T. Vance, Vance, Sanders & Company; Joseph E. Welch, Executive Vice-President, Wellington Fund, Inc.

# Nash Appointed Mgr. By Brown Bros.

The private banking firm of Brown Brothers Harriman & Co., 59 Wall Street, New York City, members of the New York Stock Exchange, have announced the appointment of Arthur L. Nash as a Manager. Mr. Nash, formerly an Assistant Manager, is a credit executive of the bank. He is National Chairman of the Committee on Co-operation with Public Accountants of the Robert Morris Associates, and is Treasurer of the New York Chapter of that organization. Mr. Nash has been with Brown Brothers Harriman & Co. since 1928.

Arthur L. Nash

The firm also announced that George Llewellyn has been appointed an Assistant Manager in the Philadelphia office. Mr. Llewellyn has been with Brown Brothers Harriman & Co. since June, 1920 and has been head of the foreign department of the Philadelphia office since May, 1951.

# Consumers Pwr. Stock Offer Underwritten

Consumers Power Co. is offering to holders of its common stock rights to subscribe to 679,436 additional common shares at $36.75 per share on the basis of one share for each ten shares held of record Jan. 7, 1954. Subscription rights expire at 3:30 p.m. (EST) on Jan. 22, 1954. Harriman Ripley & Co., Inc., and The First Boston Corp. head a nationwide group of investment firms which was awarded the underwriting of the offering at competitive bidding.

Employees of the company and its subsidiary, Michigan Gas Storage Co., may subscribe, subject to allotment, to shares not taken through the exercise of rights.

The net proceeds of the sale will be used in connection with the company's construction program. Budgeted capital expenditures from Jan. 1, 1953 to Dec. 31, 1954 amounted to approximately $122,500,000 of which about $40,300,000 was spent in 1953 through Sept. 30. Major projects included the addition to the Justin R. Whiting steam-electric generating plant on Lake Erie of a third unit of 106,000 kilowatts, placed in service in November, 1953, and addition of a seventh unit of 135,000 kilowatts to the John C. Weadock steam-electric generating plant near Bay City, Mich., scheduled for service in 1955.

The company operates entirely within Michigan, supplying electric service to 1,476 communities and townships, and distributing natural gas in 273 communities. The larger cities served include Battle Creek, Bay City, Flint, Grand Rapids, Jackson, Kalamazoo, Lansing, Muskegon and Pontiac.

Operating revenues of the company have increased from $85,297,000 in 1948 to $154,014,000 for the 12 months ended Sept. 30, 1953. In the same period income available for common stock rose from $11,144,427 to $20,155,427.

The company has paid dividends on its common stock in each year since 1913. A quarterly dividend of 55 cents per share has been declared payable Feb. 20, 1954 to stockholders of record Jan. 29, 1954 which will be paid to record holders of the additional common stock.

## Mayer Sales Mgr. of Cruttenden & Co.

Ernest A. Mayer

CHICAGO, Ill.—Ernest A. Mayer was appointed Sales Manager of Cruttenden & Co., 209 South La Salle Street, members of the New York and Midwest Stock Exchanges, on Jan. 1, 1954. He has served as Assistant Sales Manager since joining Cruttenden in June. Formerly he was a partner of Dayton and Gernon and has over 25 years' experience in securities.

## Morgan Stanley Group Offers Consolidated Edison Co. Bonds

Morgan Stanley & Co. headed an underwriting group comprising 54 investment firms that offered for public sale on Jan. 8 a new issue of $35,000,000 Consolidated Edison Co. of New York, Inc. first and refunding mortgage 3⅜% bonds, series J, due Jan. 1, 1984. The bonds were priced at 102.77% and accrued interest to yield 3.23% to maturity. The issue was awarded at competitive bidding on Jan. 6.

Of the proceeds of the sale the company will apply $21,000,000 to payment of short-term bank loans made in connection with the interim financing of its construction program and use the balance to meet the additional costs of that program. The company estimates its projected construction will involve expenditures of approximately $350,000,000 for the years 1954 through 1958. Proposed spending for electric operations is estimated at $308,000,000, gas operations $27,000,000 and general equipment and structures $15,000,000.

The series J bonds are redeemable at the option of the company at 105.77% if redeemed during the 12 months beginning Jan. 1, 1954 and thereafter at prices decreasing annually to the principal amount after Dec. 31, 1982. Special redemption prices range from 102.77% to the principal amount.

The company supplies electric service in the five boroughs of Manhattan and a large part of Westchester County; gas service in the boroughs of Manhattan and The Bronx and a portion of Queens and in the more populous parts of Westchester County. Electric requirements are supplied from generating stations owned and leased with a generating capacity of approximately 3,380,000 kilowatts. Energy is interchanged with Niagara Mohawk Power Corp., Central Hudson Gas & Electric Corp., Long Island Lighting Co., New York Naval Shipyard and the New York City Transit Authority.

For the 12 months ended Oct. 31, 1953 the company reported consolidated operating revenues of $452,688,813 which compare with consolidated operating revenues of $435,032,437 for the calendar year 1952. Gross income before income deductions for the 12 months ended Oct. 31 amounted to $67,659,157 and for the year 1952 $62,111,575.

## Richards & Co. to Be Formed in Pittsburgh

Charles S. Richards

PITTSBURGH, Pa.—C. Snowdon Richards will acquire a membership in the New York Stock Exchange, and will form Richards & Co. in partnership with Ralph S. Richards, Jr., as of Feb. 1. Both are partners in Kay, Richards & Co. Offices of the new firm will be located in the Union Trust Building.

## Newburger, Loeb Forms Inst'l Dept.

Newburger, Loeb & Co., 15 Broad Street, New York City, members of the New York Stock Exchange and other Exchanges,

James J. Faye Benjamin F. Peyser

announce the formation of an Institutional Department. The primary function of this new department will be to service the investment needs of banks, insurance companies, pension funds, investment trusts and similar financial institutions.

This new department will be under the joint direction of James J. Faye and Benjamin F. Peyser, both of whom have been active and prominent in these activities for many years. Mr. Faye was previously associated with Hallgarten & Co., and Eastman Dillon; Mr. Peyser with B. W. Pizzini & Co., and Adams & Peck.

## Pitfield Takes Over H. A. Humber, Ltd.

VICTORIA, B. C.—W. C. Pitfield & Company, Limited, has taken over the investment dealer business of H. A. Humber, Ltd. The branch will be under the management of John M. McAvity, their Resident Manager in Vancouver. Peter Bell and W. Stanbury, formerly of H. A. Humber, Limited, will be with Pitfield in the Victoria branch, located at 1220 Broad Street.



# *Bank and Insurance Stocks*

By H. E. JOHNSON

## This Week — Insurance Stocks

There seems little doubt that business activity this year will average lower than in 1953. Opinions as to the extent of the decline vary widely from economist to economist and from industry to industry. However, most observers believe that the slight downward trend now evident will continue.

In view of this investors have become much more selective in their investments preferring the stronger situated companies in each group and defensive issues such as utilities where the likelihood of continued dividends is fairly certain. In this connection it is of interest to note that stability of dividends has long been one of the attractive features of insurance stocks.

In part, this stability is based upon the nature of insurance operations and the financial policies pursued by most of the major institutions.

On an historical basis underwriting operations of most insurance companies have shown wide fluctuations. Inasmuch as this is a regulated business, periods of favorable underwriting have been followed by rate reductions. This in turn has brought about rising losses and unfavorable earnings which in turn helps to justify rate adjustments that set the basis for a period of improving operations.

To some extent the extreme fluctuations in underwriting results of the various companies have been moderated through diversification among the different insurance lines. In other words, the experience in all lines at a particular time has not been uniformly bad or contrariwise, good. Nevertheless, the cyclical nature of the underwriting business is evident.

Dividend policies of the insurance companies on the other hand reflect a stability of financial operations not present in the other phase of the business. For example many of the major fire and casualty companies have paid dividends continuously for over 100 years. In fact the Insurance Company of North America has made annual distributions since 1792 or for 162 years.

This stability is in large part due to the policy of making dividend payments from investment earnings. Historically, approximately 75% of investment income has been distributed to stockholders, the balance together with underwriting profits, if any being used to augment the capital funds to provide for the future growth of the business. At the same time investment income has been fairly stable reflecting conservative policies. As investment income has expanded as a result of the growth of the business, dividends have been increased. Only in periods of extreme economic distress or disaster has it been necessary to reduce payments. As seen from the record, the major companies even then have maintained some payment.

Thus under current conditions of declining business where investors are searching for stability of income, the defensive character of insurance stocks deserve consideration in the formulation of investment policies.

While yields for the group may be lower than that obtainable in other securities, some allowance should be made for the fact that most companies are even now distributing a relatively low percentage of investment earnings. Some institutions have been gradually increasing their distributions and others are expected to do so in the coming year.

In the tabulation below we show the investment income on a per share basis for 1952, the 1953 figures not being available, the current annual indicated dividend rate, the percentage of investment earnings distributed and the present yield for a selected group of fire and casualty stocks. Some allowance should be made for the fact that investment earnings for 1953 will show gains of as much as 10% over the 1952 total so that the figures shown below can be viewed as very conservative. The point to be emphasized, however, is that current payments for stocks listed amount to less than 70% of investment earnings with several issues paying less than 50%. Thus even should business decline substantially, indicated payments are likely to be well maintained.

| | Investmt. Earns. 1952 | Indic. Dividend | Pctge. Payout | Current Price | Indic. Yield |
|---|---|---|---|---|---|
| Aetna Fire | $4.50 | $2.40 | 55.6% | 56½ | 4.25% |
| Agricultural Insurance | 2.71 | 1.60 | 59.0 | 30½ | 5.25 |
| American Insurance | 2.08 | 1.10 | 52.9 | 26¼ | 4.19 |
| American Surety | 6.11 | 3.00 | 49.1 | 59¾ | 5.02 |
| Boston Insurance | 2.09 | 1.40 | 67.0 | 33¼ | 4.21 |
| Continental Casualty | 3.96 | 2.50 | 63.1 | 96½ | 2.59 |
| Continental Insurance | 4.90 | 2.95 | 60.2 | 77 | 3.83 |
| Fidelity-Phenix | 5.25 | 2.95 | 56.2 | 79½ | 3.71 |
| Fireman's Fund | 3.46 | 1.60 | 46.2 | 67½ | 2.37 |
| Firemen's (Newark) | 3.04 | 1.00 | 32.9 | 27⅝ | 3.62 |
| Glens Falls Insurance | 3.66 | 2.00 | 54.6 | 63 | 3.17 |
| Great American | 3.14 | 1.50 | 47.8 | 32½ | 4.62 |
| Hanover Fire | 3.09 | 1.80 | 58.3 | 39¾ | 4.53 |
| Hartford Fire | 7.83 | 3.00 | 38.3 | 175½ | 1.71 |
| Home Insurance | 2.89 | 2.00 | 69.2 | 39 | 5.13 |
| Ins. Co. of North America | 4.03 | 2.50 | 62.0 | 84¾ | 2.95 |
| New Hampshire | 2.97 | 2.00 | 67.3 | 44¾ | 4.47 |
| Pacific Indemnity | 6.18 | 3.00 | 48.5 | 67 | 4.48 |
| Phoenix Insurance | 5.89 | 3.40 | 57.7 | 100 | 3.40 |
| St. Paul Fire & Marine | 1.71 | 0.90 | 52.6 | 36¼ | 2.48 |
| Security Insurance | 2.72 | 1.70 | 62.5 | 35¾ | 4.76 |
| Springfield Fire & Marine | 3.64 | 2.00 | 54.9 | 50 | 4.00 |
| United States Fire | 2.76 | 1.50 | 54.3 | 42½ | 3.53 |
| Westchester Fire | 1.71 | 1.00 | 58.5 | 25½ | 3.92 |

# Flexible Credit Policies Needed!

**January issue of "Monthly Bank Letter" of the National City Bank reviews Administration's credit policies of past year, and points out, though credit policy eight months ago was on side of restraint, it is now working as a stimulant to spending, thus indicating that such policies will have to work on both sides alternately in years ahead, if economy is to be kept on even keel.**

The current monthly publication of the National City Bank of New York, "The Monthly Bank Letter," the issue which marks its 50th anniversary, contains a frank and informative discussion of the credit policies of the Administration and the Federal Reserve during the last year. Referring to the "credit squeeze" in the early part of the year and the subsequent reversal of this "tight money" policy, the "Monthly Bank Letter" states:

"In his Message to Congress on the State of the Union last February, President Eisenhower set out, as immediate tasks, checking the menace of inflation while maintaining economic stability and encouraging 'the free play of our people's genius for individual initiative.' The chosen means for accomplishing these wholesome objectives were curtailing planned Government expenditures, improving the structure of the public debt, freeing the Federal Reserve to make credit cheap or dear as the economic situation might dictate, discarding wage and price controls, and easing the tax burden.

"This program has been carried forward. The moves taken in the areas of credit and debt management stirred vehement objections, reviewed in the September issue of this 'Letter.' The Federal Reserve was attacked for unduly retarding the growth of the money supply and depriving the Treasury, home builders, and business of adequate access to credit. In Congress the Treasury, for paying 3¼% on its initial offering of long-term bonds, was accused of adopting policies of raising interest rates for the special benefit of banks and insurance companies and to the injury of debtors. Trade union publications, neglectful of the interest of the laboring man in the real value of his savings and pension rights, spoke darkly about Wall Street conspiracies to saddle the Federal budget and the taxpayer with radically increased debt service costs.

### Critics Taken Aback

"Critics of the policies pursued during the spring, including bankers who raised voices of protest, have been taken aback by the reversal of policy in June-July. The central feature of the year as a whole was not the increase of money rates and bond yields but the widened range of fluctuations. Money rates—after having been held down as a matter of arbitrary Government policy for so many years—have been working their way up to more normal levels ever since the war. However, the rise in the average interest cost on the public debt during 1953 was only 600ths of 1%—from 2.35 to 2.41%. This is a modest price to pay for a stable dollar. It is less than the increases in a number of other postwar years.

"Within the financial community, the spring money pinch was more of a lesson than an opportunity for profit. The most lasting financial benefits may go to pension funds which evidently were the biggest buyers of the Treasury 3¼% bonds. Insurance companies gained from improved yields on new investments though at the expense of market price depreciation on bonds previously acquired. Banks found their deposits and available loan funds shrinking; their security holdings salable only at a loss. While bank loan rates rose, so also did dates offered and paid to attract savings deposits.

"What the experience had to teach borrowers as well as lenders and investors was the value of perspective, timing, spacing of maturities, and attention to the fundamentals of credit supply and demand. It taught the usefulness of anticipating borrowing requirements when market conditions are favorable and of being prepared to wait when they are adverse. If, as many hold, the authorities made mistakes in letting money get too tight in the spring and too easy in the fall, they may repeat mistakes. The market's task is to be prepared for eventualities never clearly foreseeable, and to adjust to developments as they occur.

### Inflationary Policy Adopted?

"There is, to be sure, a view heard that the lesson of 1953 was not for the market but for the Administration and the Federal Reserve System. The fall in the bond market, the storm of criticism, and the subsequent slippage in business are supposed to have taught them that cheap money is necessary to the easy and orderly management of the public debt and that the inflation it generates is a tonic that provides the sure means to prosperity. The authorities are said to have discovered that sound money, however desirable in theory, is not a practical goal. Thus, the implication is, there is no great need for lenders

REPORT OF CONDITION OF

**THE CORPORATION TRUST COMPANY**

of 120 Broadway, New York 5, N. Y., at the close of business on December 31, 1953, published in accordance with a call made by the Superintendent of Banks pursuant to the provisions of the Banking Law of the State of New York.

ASSETS

| | |
|---|---|
| Cash, balances with other banking institutions, including reserve balances, and cash items in process of collection | $1,129,311.42 |
| United States Government obligations, direct and guaranteed | 481,175.34 |
| Corporate stocks | 60,000.00 |
| Furniture and fixtures | 384,906.44 |
| Other assets | 409,887.54 |
| TOTAL ASSETS | $2,465,280.74 |

LIABILITIES

| | |
|---|---|
| Demand deposits of individuals, partnerships, and corporations | $131,365.96 |
| TOTAL DEPOSITS $131,365.96 | |
| Other liabilities | 1,350,025.17 |
| TOTAL LIABILITIES (not including subordinated obligations shown below) | $1,481,391.13 |

CAPITAL ACCOUNTS

| | |
|---|---|
| Capital † | $500,000.00 |
| Surplus fund | 325,000.00 |
| Undivided profits | 158,889.61 |
| TOTAL CAPITAL ACCOUNTS | $983,889.61 |
| TOTAL LIABILITIES AND CAPITAL ACCOUNTS | $2,465,280.74 |

†This institution's capital consists of common stock with total par value of $500,000.00.

MEMORANDA

| | |
|---|---|
| Securities as shown above are after deduction of reserves of | $762.17 |

I, CHARLES J. SKINNER, Treasurer of the above-named institution, hereby certify that the above statement is true to the best of my knowledge and belief.

CHARLES J. SKINNER

Correct—Attest:

GEORGE F. LePAGE
RALPH CREWS
OAKLEIGH L. THORNE } Directors

or borrowers to concern themselves with a repetition of tight money or sharply declining bond prices.

"This view gains plausibility from the extent to which the Federal Reserve has gone to increase the supply of loan funds in a time of booming prosperity. Certainly, with the $73 billion public debt maturities the Treasury faces in 1954, the temptation will be present to keep money cheap as an aid to Treasury finance.

"On the other hand, this interpretation has an uncomfortably close resemblance to the theory widely accepted for years that U. S. Government bonds simply *couldn't* be allowed to trade below par because it would make undue difficulties for Treasury finance. Similarly a year ago there were skeptics who, for the same reason refused to accept at face value official statements that steps would be taken to defend the dollar, lengthen out the public debt, and use credit policy flexibly in the interests of economic stability. The argument again was that these objectives were impractical. But practical difficulties did not deter effective action. By now everyone should be on notice to expect two-way fluctuations in bond prices and money rates.

"The broad record of the Administration is performance upon the promise—including the promise to defend the dollar. And no Administration should relish rebuilding an artificial money market and reopening the controversy over cheap and depreciating money that reached its climax in the unpegging of the bond market in March, 1951. Sound money, as then became apparent, has a broad public support.

**Place of Flexible Credit Policies**

"In a free society people cannot be led by the nose. Economic stability has to be achieved, if it is achieved at all, by stability of consumer and business spending supported by appropriate and flexible fiscal and credit policies. Previous to 1953 tax increases were the favored guard against inflation. Heavy Government spending and cheap credit gave protection against deflation—or, rather, as proved to be the case, insured that inflation would prevail in spite of the heaviest load of taxes the American people have ever been called upon to carry.

"The present direction of public policy is to curtail Government spending and to improve the debt structure, bringing tax relief into play as a stimulating force on private spending and initiative. Credit policy—eight months ago on the side of restraint—is working today as a stimulant to spending. It is safe to say that it will have to work on both sides, alternately, in the years ahead if we are to keep on anything like an even keel."

## White, Weld & Co. To Admit Ogden White

White, Weld & Co., 40 Wall Street, New York City, members of the New York Stock Exchange, announces the proposed admission of Ogden White as a general partner in the near future. Mr. White is a son of the late Alexander M. White, founder of the 58-year-old investment banking and brokerage film.

Since 1945 Mr. White has been associated with Laurence S. Rockefeller. During World War II he was connected with the War Production Board, serving as United States executive office of the Combined Production and Resources Board. Prior to that he was a Vice-President of Stone & Webster, Inc.

Mr. White is a director of the Howe Sound Co., Vice-President and a member of the Board of Managers of Medical Center for Cancer and Allied Diseases and a member of the U. S. Council of the International Chamber of Commerce.

## W. C. Norman Pres. Of Colo. Oil & Gas

W. C. Norman has been elected President of Colorado Oil and Gas Corp., Denver, Colo., effective Jan. 1, it has been announced. Mr. Norman has retired as of the same date as a general partner of the capital investment firm of Lambert & Co., New York City.

As former Vice-President of Tennessee Gas Transmission Co. of Houston, Mr. Norman was also President of Tennessee's subsidiary, Northeastern Gas Transmission Co. in which capacity he was responsible for the extension of natural gas service into the New England States.

Mr. Norman has been associated with the oil and natural gas industries for many years. He was an officer of Tennessee Gas Transmission Co. from its inception in 1943 until he resigned in 1952 to joint Lambert & Co. Earlier, he had been associated with Union Sulphur and Oil Corp. and the Oil and Gas Division of The Chicago Corp.

## A. S. E. Floor Clerks Elect New Officers

Peter Barbis, specialist's clerk for Mann, Farrell, Jacobi & Greene, was recently elected President of the American Stock Exchange Floor Clerks Association. He succeeds Wallace Weil, who served two terms.

George Hoffman, Carl M. Loeb, Rhoades & Co. and Vincent Mann, Andrews, Posner & Rothschild, were elected Vice-President and Treasurer respectively of the association which is composed of telephone order clerk representatives of member firms on the American Stock Exchange trading floor.

George Layng, Shearson, Hammill & Co. was elected Financial Secretary; Wm. Dobbins, E. A. Purcell & Co. Recording Secretary; Harry Schneiderman, R. F. Lafferty & Co., Corresponding Secretary; George Heaney, Mabon & Co., Sergeant at Arms; Wm. Carter, Walston & Co., Assistant Sergeant at Arms.

Elected as Governors were William Mullenbach, Vanderhoef & Robinson; Jack Negri, William I. Rosenfeld, Jr. & Co.; Joseph Burke, Gilligan, Will & Co.; Daniel Hannafin, Joseph McManus & Co.; Michael Petruzzi, Reynolds & Co.; Marty Solomon, Bernhardt & Bocklett; and Nelson Goetz of Reich & Co., according to the announcement.

## A. A. Koellner Forms Own Company in Newark

NEWARK, N. J. — Arthur H. Koellner has announced the formation of A. H. Koellner & Co., with offices at 31 Clinton Street, to engage in the securities business. Mr. Koellner, who has been in the investment business for 40 years, was formerly President of Koellner & Gunther, Inc.

# Securities Salesman's Corner

By JOHN DUTTON

## Morale in Sales Organizations Is Dependent Upon Recognition of Ability

One of the reasons why there is such a large turnover of salesmen in the investment business, I believe, is that too often there is not a meeting of minds between the firm and the salesman. Many good men rightly or wrongly become dissatisfied with their compensation, or some personal or emotional element enters into the relationship between themselves and their employers, and they either change firms, or sometimes start in business for themselves. The only way that salesmen can be happy in their jobs is when they believe they are being compensated fairly, and secondly that they are being recognized, and are part of a team.

**Have a Fair Basis for Judging The Value of a Salesman**

Some firms pay their salesmen 35%, some more, of gross. Some pay year-end bonuses, some do not. Some pay a salary, others a salary and commission. Sometimes traveling expenses and other business expenses are paid by the firm, other times not. All of these various methods of compensation deserve thoughtful consideration by the management. The basis of compensation and the manner in which it is paid is a **very important consideration** in building a congenial, harmoniously cooperative, organization of salesmen.

All plans have their good and bad points, but it seems to me that the most desirable form of compensation is based upon a set commission basis **with a bonus for extra production**, rather than a plan which pays year-end bonuses to salesmen that are based upon the **judgment** of the employer as to the amount each man should receive. The latter plan often leads to discussion and some criticism of unfairness or favoritism, whereas the straight bonus plan based upon **production**, eliminates such dissension.

**Which Man Is the Most Profitable?**

Some firms have no real basis for judging the productive value of their salesmen because they do not keep adequate records. Find out what your men are doing then set up a commission basis that is fair to all. This seems to me to be the first step in building an organization that will stick through the years and be loyal through good times and bad.

**What Men Are Opportunists and What Men Are Builders**

When you are building a clientele you **don't work for today alone.** A firm that has loyal salesmen should have loyal customers. Some salesmen will sell anything that shows them a long profit, whether or not it is suitable for the client. Eventually this will lead to a large turnover of accounts. The investment business is near to a profession in that clients should be sold securities that meet their investment needs. Often it is better to have a salesman who recognizes this fact than one who is constantly pushing anything he can sell just to make a commission. Sometimes it is better to build customers than to create sales that will eventually only hurt the firm's relations with its clients. Only a study of clients' holdings will show which salesmen **are building customers** and which ones are **opportunists.** If I had opportunists in my organization I think I would gladly place my sound men ahead of them in giving consideration to this problem. In fact, I believe that men who constantly overtrade and oversell just to make a sale **should not be in the investment business.**

**A Good Man Is Loyal to His Firm**

If a firm is good enough to represent, it is good enough to uphold and to praise whenever possible. Some men unfortunately look upon their employer as a necessary evil. They even have been known to make derogatory remarks about some officer of their company to a customer, or to others. Such a man should not be surprised or disappointed, if some day his firm heard of this sort of thing and resented it deeply. You can't gain friends by throwing mud at your own firm, your family, your friends, your country, or your religion. Anyone who does this is making a mistake.

**Favoritism Is Not Good**

All of us have our strong and weak points. It is the wise man who does not criticize the other fellow. It is a wise employer who treats his men the same. Teamwork depends upon a **spirit of friendliness and cooperation that can only be engendered at the top.** Salesmen in particular are temperamental and they are sensitive to the feelings and reactions of others (more so than many other people in other walks of life). If there is any showing of favoritism toward any man, or several men, in the organization the others will feel it and the team spirit that is necessary to achieve a harmonious and energetic sales organization is displaced by jealousy and illwill. It is difficult to achieve this feeling even among men that are treated the same and are respected equally for their loyalty and their respective contribution to the welfare of all. It takes a lot more planning and doing to establish this sort of environment than many busy employers seem to be able to give to their sales organization.

## $100,000,000 World Bank Bonds Marketed

**First Boston Corporation and Morgan Stanley & Co. head underwriting group of 167 investment firms and banks. Fifteen-year 3½% bonds are priced at 100%.**

A new issue of $100,000,000 15-year 3½% dollar bonds of the International Bank for Reconstruction and Development, generally known as the World Bank, was placed on the market (Jan. 11) by a nationwide underwriting group of 167 investment firms and banks, jointly headed by The First Boston Corporation and Morgan Stanley & Co. Of the total, $98,000,000 of the bonds are being offered in the United States at a price of 100% and accrued interest to yield 3½% to the maturity date of Jan. 1, 1969. The remaining $2,000,000 are being underwritten by the Credit Suisse, Zurich, Switzerland, and will not be offered in the United States market.

The offering represents the fourth and largest issue of World Bank bonds to be brought out in the United States on a negotiated underwriting basis. Earlier negotiated issues included a $75,000,000 three-year 3% loan sold in September, 1953; $50,000,000 issue of 23-year 3⅜% bonds offered in May, 1952 and $60,000,000 of 19-year 3½% bonds marketed in October, 1952. The three issues were successfully distributed by syndicates headed by the same firms managing the current offering.

Total outstanding funded debt of the Bank, giving effect to issuance of the new bonds, will consist of $753,479,877 expressed in U. S. currency. Of this total, $675,000,000 constitutes U. S. dollar bonds, $13,636,364 Canadian dollar bonds, $14,000,000 pound sterling bonds and $50,843,513 Swiss franc bonds.

As a sinking fund the Bank will retire $4,000,000 of the new bonds on July 1, 1957 and in each year thereafter to and including 1966, and $5,000,000 of the bonds in 1967 and a like amount in 1968, thus providing for retirement of 50% of the issue prior to maturity. The bonds are redeemable, at the option of the Bank, at 103½% to and including Jan. 1, 1957, and at prices decreasing to 100% on and after Jan. 2, 1966; and in part for the sinking fund on July 1, 1957 and on July 1 in each year thereafter at par.

Eugene R. Black's term as President of the Bank has been extended for five years, commencing at the expiration of his present term on June 30, 1954.

Members of the underwriting group include:

The Chase National Bank
Bankers Trust Company
The National City Bank of New York
J. P. Morgan & Co., Incorporated
The First National Bank of Chicago
Manufacturers Trust Company
Chemical Bank & Trust Company
Guaranty Trust Company of New York
First National Bank of New York
Bank of America, N. T. & S. A.
Harris Trust & Savings Bank
The Northern Trust Company
Blyth & Co., Inc.
Dillon, Read & Co. Inc.
Drexel & Co.
Glore, Forgan & Co.
Goldman, Sachs & Co.
Harriman Ripley & Co., Incorporated
Kidder, Peabody & Co.
Lazard Freres & Co.
Lehman Brothers
Merrill Lynch, Pierce, Fenner & Beane
Salomon Bros. & Hutzler
Smith, Barney & Co.
Stone & Webster Securities Corporation
Union Securities Corporation
White, Weld & Co.
Ladenburg, Thalmann & Co.
Shields & Company
American Securities Corporation
Bear, Stearns & Co.
C. F. Childs and Company, Incorporated
Clark, Dodge & Co.
Dick & Merle-Smtih
Dominick & Dominick
Equitable Securities Corporation
Hallgarten & Co.
Hemphill, Noyes & Co.
Hornblower & Weeks
W. E. Hutton & Co.
W. C. Langley & Co.
Aubrey G. Lanston & Co., Inc.
Lee Higginson Corporation
Laurence M. Marks & Co.
F. S. Moseley & Co.
Paine, Webber, Jackson & Curtis
Phelps, Fenn & Co.
Wm. E. Pollock & Co., Inc.
R. W. Pressprich & Co.
L. F. Rothschild & Co.
Wertheim & Co.
Wood, Struthers & Co.

## Mohawk Valley Inv. To Be NYSE Member

UTICA, N. Y.—Robert W. Morgan, member of the New York Stock Exchange, will become a Vice-President of the Mohawk Valley Investing Company, Inc., and the firm will become Exchange members as of Jan. 21. Other officers are A. James Eckert, President; A. James Eckert, Jr., Vice-President, and Yates P. Eckert, Assistant Treasurer. Mohawk Valley Investing Company maintains offices at 238 Genesee Street.

## Piper, Jaffray to Admit

MINNEAPOLIS, Minn. — Piper, Jaffray & Hopwood, 115 South Seventh Street, members of the New York Stock Exchange and other Exchanges, will admit Ruth E. Cranston to partnership, Feb. 1.

Continued from page 3

# Taxation, Incentives, And Financial Capacity

to minimize rather than to stress the over-all impact of taxes.

It should be noted in passing that this emphasis on financial capacity, as contrasted with incentive effects based on income and profit expectancies, has important implications for wide ranges of economic theory. With the exception of aggregative analysis the traditional theoretical approach has been to emphasize the latter type of effects to the near exclusion of the former. I believe that the failure to allow adequately for cash and liquidity considerations has greatly limited the relevance of much theoretical inquiry.

**Explanations for Moderate Over-All Impact of Taxes**

Several main factors can be cited as explanations of this moderate and comparatively optimistic conclusion concerning the effects of taxation as compared with the popular generalizations about the highly destructive effects of the existing tax structure. The explanations, in themselves, can properly be regarded as generalized findings of our studies.

**Importance of Nontax Considerations.** By far the most important explanation for the relatively limited effect of taxes, even on individuals and businesses subject to very high marginal tax rates, is that nontax considerations frequently are of much greater significance than tax considerations in determining the basic decisions both of individuals in their personal capacities and of the managements of business enterprises. I believe it can be stated as a general proposition that the more basic and fundamental the decision and the greater its significance for the effective functioning of the economy, the more likely are nontax considerations to be dominant. So far as incentive effects are concerned, taxes are more likely to determine **how** a thing is done than they are to determine **what** or **whether** an action is taken. The more specific and technical the decision at hand, the more likely are taxes to be controlling.

A good illustration of the above propositions is the effect of taxes on executive activity. On the critical question of how hard executives work — of the intensity of executive effort and activity—the evidence indicates that taxes have had very little effect. In contrast, on the more restricted and less basic question of how executives are compensated, tax considerations have been highly influential.

To cite another example, we have found little evidence to indicate that taxes have greatly affected the desire or willingness of individuals (in the aggregate) to organize new enterprises. Once the decision is made to start such an enterprise, however, the legal form of the enterprise and the nature of its capital structure are likely to be dominated by tax considerations.[2]

As a final example, the conditions under which taxes are likely to be the main motivation for the sale or merger of one company with another are highly specialized and do not apply to the large majority of merger transactions; once the basic decision to sell or merge is made, however, taxes typically play an important part in the negotiations on the legal form in which the transaction is to be consummated.

**Opportunities for Avoiding Full Impact of High Income Tax Rates.** Another main reason why the tax structure of recent years has had only a moderate impact on incentives, and a much smaller effect on financial capacity than is usually believed, is that the impact of the existing tax structure is frequently less severe than it appears to be at first glance. Popular discussions of the harmful effects of taxes on incentives, and to some extent also theoretical economic analyses based on simplified models, often take for granted that all income is subject to the full impact of the personal and corporate income and excess profits taxes. While this assumption is valid in wide ranges of circumstances, there are also numerous opportunities, some of them of strategic importance, for avoiding the full impact of the ordinary income tax rates. The most important of these opportunities, but by no means the only one, is that of accumulating new investable funds and accretions to personal wealth in the form of capital gains rather than of ordinary income.

As is developed in greater detail later in this paper, the continued capacity of individuals in the upper income brackets, as a class, to accumulate large amounts of new investable funds is attributable in considerable part to the fact that many of these individuals are able to make their accumulations in ways that are not subject to the full impact of the top-bracket individual income tax rate. These same opportunities introduce a positive incentive for those top-bracket individuals who by personal disposition are inclined to be venturesome to channel substantial amounts of funds into capital gains situations such as promising young enterprises. The fact that in many cases these incentives are socially desirable in an economic sense, but that at the same time they introduce serious discriminations and inequalities into the tax structure, poses a major dilemma of tax policy.[3]

**High Tax Rates Imposed Under Conditions of Rising Incomes.** A final explanation for the moderate impact of the severe tax burdens of the last 10 to 15 years is that the increased tax burdens have been imposed on an expansionary economy. For many groups in the economy, and during most of this period for the economy as a whole, both real and monetary income and profits levels have been rising. As a consequence, for large portions of the economy the heavy tax burdens of recent years have not cut into existing levels of income and profits; their effect has rather been merely to absorb part of the rise in income levels which was occurring along with the tax increase.[4] For the most part, also, the tax increases have been enacted at times when business expectations were buoy-

2 For a discussion of the effects of taxes on the legal form and financial structure of closely-held companies see Dan Throop Smith, *Effects of Taxation on Corporate Financial Policy*, (Boston, Harvard Business School, Division of Research, 1952), especially Chapters VI and VII.

3 This point has been developed in more detail than is possible in this paper in J. Keith Butters, Lawrence E. Thompson, and Lynn L. Bollinger, *Investments by Individuals*, (Boston, Harvard Business School, Division of Research, 1953), pp. 62-68.

4 See, for example, the stimulating discussion of this point by Gerhard Colm and Haskell P. Wald, "Some Comments on Tax Burden Comparisons," *National Tax Journal*, March 1952, pp. 1-14, and Albert C. Neisser, "The Dynamics of Tax Burden Comparisons," *National Tax Journal*, December 1952, pp. 351-364.

ant and investor attitudes optimistic.

Full weight must be given to these highly important environmental conditions in appraising the significance of our empirical findings. It would be rash, for example, to generalize from the empirical evidence of the recent past that no concern need be felt about the effect on incentives and economic activity of an indefinite continuance of the current tax structure regardless of shifts in the underlying economic conditions.[5]

## II

So much for a systematic statement of our major findings or generalizations. I turn now to a more detailed and specific statement of the evidence underlying these findings. Even this "detailed" discussion, however, covers such a broad range of material that it is necessarily at a summary level.

It has seemed best to organize the discussion so as to present a systematic statement of the evidence underlying my first conclusion to the effect that the overall impact of taxes has not seriously impaired the performance of the economy during the past 10 to 15 years. In terms of the major decisions now confronting the nation in the areas of tax and expenditure policies this is by all odds the most significant of the above findings. Illustrative material supporting the other main findings, however, will be introduced as seems appropriate at varous points in the discussion.

The critical tax effects to be considered in appraising the overall impact of taxes would seem to be (1) those affecting the basic motivations of individuals as workers and investors and (2) those affecting the crucial phases of busines development, namely, the formation of new companies, the rate of expansion of existing companies, and the continued existence as separate competitive entities of existing companies. I shall discuss briefly the evidence bearing on each of these key areas.

**Work Incentives:** With reference to work incentives our evidence is limited principally to tax effects on executive activity.[6] These effects, however, are of strategic importance both because business executives play a key role in a free enterprise economy and because they are subject to high marginal tax rates on their incomes, and hence are in a position where tax effects on work incentives would be likely to be maximized.

In his investigation of the topic, Professor T. H. Sanders, on the basis of numerous interviews with executives and their associates in a wide range of areas and industries, arrived at the following conclusion:

"The evidence . . . tends to show that the extent to which business executives have reduced their work and effort, as a result of taxes, has frequently been much exaggerated. The economy has not—as a tax consequence—lost a serious amount of such services. . . ."[7]

The gist of Professor Sanders' findings is that nonfinancial incentives typically outweighed purely financial incentives in such a basic decision as how a man spends his working life. Among the major nonfinancial incentives which Professor Sanders cites are the sheer urge to do a good job; the power, prestige, and other satisfactions associated with a responsible position regardless of the level of its financial remuneration; a sense of loyalty to an organization and an objective; and the organizational disciplines imposed on anyone working in a group activity.

Substantially similar findings were reported by Professor Challis A. Hall in his study of *Executive Compensation and Retirement Plans* and by Professor Dan Throop Smith in his summary statement on "Taxation and Executives." Professor Smith states:

"As regards the direct effects of high individual taxation on executives, I fully concur with the conclusions of Professor Sanders in his recent book that their day-to-day efforts and activities are in general not lessened by taxation."[8]

These findings by no means imply that taxes have no effect at all on executive behavior. Quite the contrary. The evidence is clear that taxes have exerted a pronounced effect on methods of executive compensation, tending to stimulate the use of various deferred compensation plans, especially pension plans, and also the use of such devices as stock options and stock purchase plans. Similarly, the wide range of nontaxable fringe benefits and perquisites provided to executives and claimed as business expenses, especially by the owner-managers of closely-held companies, undoubtedly is stimulated in substantial measure by tax considerations.

While developments such as these may be specialized in their impact, and more concerned with the technique than the substance of what is being accomplished, they may have unintended incidental effects of substantial importance. Nonvesting deferred compensation plans, for example, tend to hold or freeze employees in their existing jobs, and hence to impair the improved allocation of resources that would be brought about by greater executive mobility. It is also suggested, though less definitely established, that deferred compensation plans often tend to develop a "play-it-safe" rather than a venturesome and enterprising management philosophy. Both these effects, through their qualitative influence on executive activity, could conceivably be of considerable importance to the long-run development of the economy, and they constitute an area which deserves examination in any fundamental revision of our tax structure. It should be noted, however, that some of the problems in this area arise not from the basic rate structure of the income tax but rather from technical features of the tax law; it could be argued with considerable merit, for example, that the tax benefits accorded qualified pension plans

*Continued on page 26*

5 Butters, Thompson, and Bollinger, *op. cit.* pp. 52-75.

6 The evidence for this section of our paper is derived mainly from Thomas H. Sanders, *Effects of Taxation on Executives*, (Boston, Harvard Business School, Division of Research, 1951), and Challis A. Hall, Jr., *Effects of Taxation on Executive Compensation and Retirement Plans*, (Boston, Harvard Business School, 1951).

7 Sanders, *op. cit.*, p. 12.

8 Dan Throop Smith, "Taxation and Executives," *Proceedings of the National Tax Association, 1951*, Sacramento, California, 1952), p. 235.

While our researches have been limited to the effects of taxes on executives such other information as is available on the effects of taxes on work incentives in other groups of the American economy points in general to the same conclusion. See, for example, the excellent discussion of this topic by Professor Break in the December 1953 issue of the *National Tax Journal*.

Continued from page 25

# Taxation, Incentives, And Financial Capacity

should be denied to plans with severely restricted vesting rights.

The matters just discussed, however, can properly be regarded as footnote qualifications to the main finding on work incentives stated above. Certainly, this is true insofar as the major decisions of tax policy now confronting the country are concerned. If continued high taxes are required to finance an adequate level of defense expenditures, I know of no evidence pertaining to the United States which indicates that the harmful effect of taxes on work incentives is currently so great as to require immediate tax reductions despite these needs.

**Incentives and Capacity of Upper Bracket Individuals to Save and Invest.** The evidence on the question of the incentives and capacity of individuals with large incomes to save and invest falls far short of validating the claim that these individuals as a class no longer can (or do) save large amounts and that they are no longer willing to take substantial investment risks.[9]

This finding holds despite the indisputable evidence that the tax increases of recent years have cut severely into the incomes of upper bracket individuals and undoubtedly also into their capacity to accumulate new investable funds, provided and to the extent that their incomes bear the full brunt of the individual income tax. The data also show, however, that as a group individuals in the upper income percentiles are still accumulating large amounts of new investable funds despite existing tax rates.[10]

Two reasons appear to explain the continued large accumulations of funds by individuals in the upper income groups.

First, the habit of saving appears to be so deeply ingrained in most individuals with moderate to large incomes that it has survived the impact of the severe tax burdens of the past decade. All the evidence indicates that the overwhelming majority of the individuals in the top 1% of the population — ranked by size of income — are still accumulating positive savings, and that the savings of at least half these individuals amount to a fairly sizable fraction of their incomes before taxes, say, a fifth or more.

Within the group of persons receiving very large incomes, it is quite possible that those whose living standards were geared to high levels before the period of very high incomes taxes, and whose disposable incomes have been sharply reduced by the imposition of such taxes, may have ceased to save significantly or may even be living off their capital in many instances. This group, however, appears to be more than offset by individuals whose incomes (both before and after taxes) have risen along with or after the imposition of very high tax rates. The evidence appears to indicate that as the income of such persons (say, young executive or professional persons) rises the advance in their living standards is keyed to their disposable income rather than to their incomes before taxes, and that (by and large) they continue to save despite the high income taxes which they must pay. In many instances, however, they obviously can do so only by accepting less luxurious living standards than their predecessors in equivalent positions were able to maintain in the era of low tax rates.

A second major explanation of the continued capacity of upper bracket individuals to accumulate substantial amounts of new investable funds is that there are numerous ways in which many groups of upper bracket individuals can accumulate new investable funds without having them subjected to the full impact of the individual income tax. In other words, for many groups in the economy the tax structure is much less severe than it appears to be on superficial examination. Since we have cited this fact as one of the major explanations for the moderate impact of the existing tax structure on incentives, it will perhaps be useful to list at this point some of the more important ways by which the full impact of the high upper bracket rates of the individual income tax can be avoided by sizable groups of individuals with large incomes.

(1) There are a wide variety of circumstances under which the income received by individuals is partly or completely tax exempt. Among the more notable of these are (a) interest on bonds issued by state and local government; (b) interest on savings invested by individuals through insurance companies; and (c) income offset by depletion charges in excess of the cost of the properties being depleted. Such opportunities for tax avoidance account for large amounts of tax-exempt incomes received by individuals with large incomes.

(2) Certain categories of individuals with large incomes, notably owners of family businesses, are able to charge off substantial amounts of personal consumption expenditures as business expenses and hence to exclude them in computing their "adjusted gross income" for tax purposes. In addition, substantial components of the personal deductions—such as real estate taxes and interest payments on mortgages on owner-occupied homes — represent consumption expenditures which are, in effect, excluded from taxable income. Deductible contributions might even be so regarded if they are assumed to constitute a source of personal satisfaction to the contributors. One of the principal problems in maintaining the integrity of the individual income tax is that of resisting the constant political pressure for the enlargement of items of personal expenditures which are allowable as deductible expenses.

(3) The income of family units can often be split, by the use of trusts, gifts, and family partnerships, into several entities each of which is taxed separately. By this means the income of a family unit can be concentrated to a greater degree in the lower ranges of the personal income tax brackets than would be possible if it were all lumped together for tax purposes.

(4) The corporate form of business organization can sometimes be availed of to avoid the individual income tax. Owners of closely held corporations, in particular, can cause their corporations to accumulate undistributed profits which can frequently (though not always) be realized at the discretion of the owners at some later date. A variety of techniques exist by which such realizations may be qualified as capital gains or sometimes even be made partly or wholly tax free. Whether such accumulations of undistributed profits in closely held corporations should be regarded as representing actual (though not taxable) income in the hands of their owners is partly a question of semantics and of personal value judgments as to the appropriate definition of income for tax purposes, but there is no doubt that they often (though not always) represent an increase in the real wealth of the owners more or less in the amount of the retained earnings.

(5) The preferential treatment given to capital gains in general constitutes another major way—probably the single most important way—in which the full impact of the individual income tax rates is avoided. Once again, it is to some extent a matter of semantics whether capital gains are considered to be income, but there can be no doubt that they often constitute a source of new investable funds and of additional wealth in the hands of individuals. In this connection the increasingly large range of circumstances in which receipts formerly taxable as ordinary income now qualify as capital gains is accentuating the importance of this consideration.

(6) There is a certain amount of deliberate or unintentional tax evasion which allows otherwise taxable income to escape taxation. The intensive auditing of tax returns filed by individuals with large incomes, however, severely limits such understatements of the income tax liabilities of upper bracket individuals.

While the data for appraising the extent to which advantage is taken of the opportunities of avoiding the full impact of the individual income tax are not very satisfactory, it can be safely concluded that the use made of them contributes substantially to the surprisingly large accumulations of savings still being made by individuals with large incomes.

Besides curtailing the investment capacity of individuals, taxes could restrict the supply of funds which individual investors are able and willing to invest in business equities by reducing the incentives for individuals to risk their funds in such investments. The evidence on this point indicates that, on balance, taxes have had some such effects, but, that these effects have not been as pronounced or as pervasive as is usually believed.

Once again, a large part of the explanation is that, so far as investment decisions by individuals are concerned, the existing tax structure is in many respects a two-edged sword. For conservative investors—those whose primary investment objective is to preserve their capital intact or to obtain a moderate income yield without incurring an undue risk of capital loss — the high upper bracket income tax rates greatly reduce the incentive for persons with large incomes to take investment risks. To such individuals, the net return **after** taxes often appears too small to justify the danger of capital loss present in almost any equity-type investment. The balance, however, is often reversed for venturesome investors who place a strong emphasis on capital appreciation as an investment objective. The relatively low maximum tax rates on capital gains, as compared with the much higher rates on ordinary income, often increase the willingness of essentially venturesome persons to invest in risky outlets offering the potentiality of large capital gains.

In addition, certain highly risky forms of investment, especially those in mineral and petroleum resources, receive in effect a partial tax exemption in the form of percentage depletion deductions and the current deductibility of intangible drilling costs. In a very real sense, the higher the tax rates which are assessed against other forms of income, the greater is the incentive to invest in these areas—risky though such investments may be.

On balance, our findings indicate that during the postwar years the net effect of the tax structure has been to reduce somewhat the willingness of upper bracket individuals in the aggregate to make venturesome investments, but not by a wide margin. In other words, for equity-type investments considered as a whole the investors who were induced by taxes to shift to less risky investment positions appear to have overbalanced the opposite reaction of appreciation-minded investors. The latter group, however, may have been so stimulated by the tax structure to seek out investments offering unusually large capital gains potentialities as actually to increase the flow of capital to such situations. However this may be, it is clear that the combined impact of these effects on individual investors has fallen far short of drying up the supply of equity capital which such investors have been willing and able to make available to business enterprises in postwar years.

**Business Incentives and Capital Expansion**

Thus far I have been discussing the effects of taxes on work incentives and on the willingness and capacity of individual investors to save and invest. It remains to consider the effects of the tax structure on the decisions made by individuals acting as owners and managers of business enterprises. How have the heavy taxes imposed on business enterprises since 1940 affected the willingness and the capacity of the business sector of the economy to undertake the capital expansion and investments needed to maintain full employment and a vigorous rate of growth in the economy? How have taxes affected the structure of the industrial sector of the economy?

The answers to these questions, as best we have been able to ascertain them, parallel in many ways those sketched above for persons acting in their individual capacity as workers and investors. Just as there is little evidence that individuals in the aggregate have gone on an investment strike or have significantly reduced the intensity of their effort and activity because of taxes, so there is little evidence that taxes have curtailed corporate and business investment to undesirably low levels in postwar years.

No intensive or specialized inquiry is needed to justify this statement. With the exception of a slight breathing spell in late 1948 and early 1949 the economy has operated under conditions of full employment continuously since the postwar conversion period of 1945 and early 1946. The period as a whole has been characterized by upward price pressures, particularly in the industrial sectors of the economy. Private capital expansion has proceeded at an unprecedented pace. The evidence clearly indicates that the major bottleneck to the rate of new capital formation has been limitations of manpower and of technical capacity rather than the lack of adequate incentives or funds to finance this expansion.

In these aggregate terms, then, it can hardly be contended that the severe tax structure of postwar years, even with the excess profits tax, has acted as a serious brake on the economy as a whole. On the contrary, the taxes which have been imposed, along with other anti-inflationary measures, have been barely adequate to maintain a reasonable degree of financial stability in an economy characterized by extraordinarily powerful inflationary pressures.

Once again, however, it does not follow from the fact that the level of employment has been consistently high and the rate of capital formation rapid that no concern need be felt over the effect of taxes on the industrial sector of the economy. It would be quite possible for the tax structure to exert a deadening and restrictive influence on the long-run growth and vitality of the economy without necessarily bringing about conditions of unemployment and depression. These effects could be brought about if taxes should greatly restrict: (1) the rate of formation of new enterprises, particularly of new enterprises with a large growth potential; (2) the rate of expansion of such enterprises relative to their large, established competitors; and (3) the continued existence of the "centers of initiative" represented by the independently owned and managed small and medium-sized companies in the economy.

Our findings on the impact of taxes on the structure of the economy in these three respects can perhaps be summarized as follows.

**Formation of New Enterprises.** Taxes appear to have had only a limited effect on the formation of new enterprises.[11] This is particularly true insofar as the effect of taxes on the desire or incentive of individuals to undertake new enterprises is concerned: the limited restrictions which taxes place on the formation of new companies operate more through their effect on the supply of capital available for this purpose than through the incentive route.

There are perhaps two main reasons which account for the limited effect of taxes on the desire of individuals to start new enterprises — especially those new enterprises which are believed by the promoter or entrepreneur to have a large growth potential. The first is that at the time a new business is organized only the crudest estimates of its profit potentialities can be made. The impossibility of estimating profits prospects with any degree of precision at this stage of a corporation's development tends to preclude a careful evaluation of the effect of taxes on these indefinite profits prospects—unless tax rates approach confiscatory levels and are expected to remain there. The force of this point, however, becomes weaker as a business develops to the stage at which more definite estimates can be made of its profits potentialities and the impact of taxes on these potentialities can be computed with more precision.

A second reason tending to diminish the importance of the incentive effects of taxes in the formative stages of a new business is that the kind of individuals who are interested in organizing new businesses are often motivated to a marked degree by nonpecuniary considerations. They tend to be aggressive, confident in their ability to succeed, anxious to be their own boss, and desirous of developing a new "idea" in which they are intensely interested. If the organizer's primary interest is in the satisfaction of creating something new and in the power and independence that goes with a successful business development, as it often is, tax considerations tend to be

9 This section is summarized from Butters, Thompson, and Bollinger, *op. cit.*

10 Specific estimates of the percentage of total accumulations of new investable funds made by individuals in the top income percentiles are presented in Butters, Thompson, and Bollinger, *op. cit.*, Chapter V. It is there estimated that the top 1% of all spending units with incomes of about $15,000 and over accounted for about 30% to 35% of the annual accumulations of investable funds made by all spending units in 1948, and presumably also in other postwar years. The corresponding estimates for the top 3% of all spending units are 45% to 50%, and for the top 5% of all spending units 60% to 65%.

11 This section is based on J. Keith Butters and John Lintner, *Effect of Federal Taxes on Growing Enterprises* (Boston, Harvard Business School, Division of Research, 1945) and on our later observations, particularly the data for Butters, Thompson, and Bollinger, *op. cit.*

viewed as of only secondary importance.

In considering the effect of taxes on the availability of funds for the inauguration of new enterprises, the appropriate starting point is to indentify the sources from which such capital is potentially available. Our observations indicate that this type of ownership capital ordinarily must be supplied from the personal resources of the individuals directly interested in the business, or by their immediate friends and relatives. Outside investors typically have very little interest in a new venture until it has advanced to a point where convincing evidence of its potential profitability can be cited. Generally speaking, until this stage of development is reached the preceding discussion of the effects of taxes on the willingness and capacity of outside investors to make venturesome investments is largely irrelevant to the problem of forming a new enterprise. As the enterprise progresses and is able to demonstrate more clearly its potential profitability, however, these considerations become increasingly relevant.

So far the actual formation and the embryonic development of new enterprises are concerned, the supply of capital available for this purpose appears to be significantly affected by taxes in only one way. This is through the impact of the personal income tax on the capacity of the individuals immediately concerned to accumulate the needed funds for the development. Unless these individuals and their immediate associates can accumulate a minimum amount of capital with which to start the enterprise, the high probability is that it will never be organized. Since, however, there is no reason to believe that individuals with the desire and talents required to inaugurate a new enterprise successfully are heavily concentrated in the upper income brackets, it would hardly seem appropriate to put too much stress on this point. It is not clear, for example, that any feasible alternative tax structure would greatly alter the intensity of this tax effect for all potential new enterprises considered as a whole.

**Expansion of Existing Enterprises.** Inasmuch as Professor Lintner is considering this topic in detail in his paper, I shall merely state our major conclusions on this topic in order to fit them into the perspective of the present discussion. For present purposes the pertinent findings can be summarized in the following four statements:

(1) The impact of taxes on the investment outlays and the rate of growth of existing enterprises appears to be much greater and more significant than most of the other tax effects considered in this paper.

(2) The intensity of these effects on the growth of promising small companies is much greater than that on the growth of their large, well established competitors.

(3) Both incentive and cash (financial capacity) considerations contribute to these tax effects, but the latter are usually the more powerful.

(4) The corporate income tax, and the excess profits tax (if one is in effect), have a much greater impact on corporate expansion and investment outlays than does the personal income tax.[12]

**Sales and Mergers of Business Enterprises.** A third major way in which taxes could affect the basic structure of the economy is by stimulating the owners and managements of existing companies—mainly closely-held companies—to sell out or merge with other companies. The tax system does exert powerful pressures on the owners of many such companies to sell out or merge.

In the first place, such sales may be made to lessen the impact of the estate tax. The sales in this instance may be stimulated by the liquidity problems encountered in meeting estate tax liabilities if the business is still in the estate at death; they may also be caused by uncertainties regarding the valuation of the business for tax purposes.

In the second place, sales or mergers of closely-held businesses may be prompted by a desire to minimize the impact of the personal income tax and of the Section 102 penalty tax on unreasonable accumulations of corporate surpluses. In the most general terms, there sales are made to enable the owners to withdraw profits from the firm by the capital gains route. This is obviously an attractive alternative to having the profits distributed as dividends which would be subjected to the upper bracket rates of the individual income tax or to leaving the profits in the company and having them possibly subject to penalty taxes under Section 102.

These tax effects have undoubtedly provided a major part of the motivation for the merger or sale of many independent enterprises, and in this way tended to increase the degree of industrial concentration and to reduce the number of "centers of initiative" in the economy. But it would be incorrect to stress the importance of this fact too strongly. For the conditions under which these tax effects exert their full force are highly specialized and apply to only a small proportion of all small and medium-sized companies. Moreover, even when the tax incentives are important, they are not necessarily controlling.

The problem of whether or not to sell out a closely-held business is very complex and embraces the whole range of human motivations and interests. Frequently such matters as the desire to retire; to avoid the ever-increasing red tape involved in managing an independent enterprise; to provide for management succession; to become associated sometimes as an officer or director with a nationally known company; to achieve competitive advantages; to consolidate a risky investment position; and a host of other similar reasons may far overshadow tax considerations — even when the conditions needed to make tax considerations important are met. Conversely, in other situations an owners' desire to maintain the control and management of his enterprise may be so intense that he will resist or ignore strong tax pressures to sell out or merge. In still other instances action short of a sale or a merger, such as a public sale of part of the ownership interest in the company, may be taken to alleviate the tax pressures.

All in all, it would seem misleading to place great stress on the extent to which tax-stimulated mergers have altered the basic industrial structure of the economy, or are likely to do so, in appraising the need for immediate revisions in the tax structure. As with most of the other specific problems discussed earlier in this paper, a careful investigation of the facts does not reveal a situation so acute as to justify tax reductions which would sacrifice significant amounts of tax revenues needed to maintain fiscal stability or to finance public expenditures of a high order of priority. Tax-created pressures to sell out or merge do, however, constitute one more instance in which the existing tax system exerts a stratifying and rigidifying effect on the basic competitive structure of the economy, and as such they constitute one among many considerations which demand attention in any long-run revision of the tax structure.

### III

This discussion of the effects of taxes on the sale and merger of independent enterprises completes our examination of the key areas in which taxes seem most likely to impair the incentives and the financial capacity which are vital to the successful functioning and growth of the economy. Time will not permit a systematic discusssion of the implications of these findings for national policy. There is, however, one point which deserves reiteration.

Insofar as the major policy issues now confronting the nation in the areas of public expenditures and taxation are concerned, the evidence clearly supports the conclusion already stated — namely, that the high taxes of the last 15 years have not produced a crisis situation which calls for drastic and immediate action on the tax front. If the demands of national defense and fiscal stability require a continuation of the current level of tax rates for another several years, our studies have produced no evidence to indicate that the economy will suffer serious long-run damage thereby. The claim frequently voiced in Congressional quarters and elsewhere that expenditures must be greatly reduced at an early date in order to preserve economic strength at home, almost regardless of the international consequences of these reductions, is not, I believe, substantiated by the facts.

As a long-run proposition there is substance to Secretary Humphrey's position that:

"... our way of life is threatened, not from one, but from two sources at the same time. It can be lost just as completely by economic deterioration from within as by aggression from without."[13]

In the short-run, or even in the intermediate-run, extending over a considerable period of years, however, I believe that it would be a rash public policy which would evaluate the danger of economic deterioration from within, caused by the present tax structure, as being of the same order of magniture as that of aggression from abroad. In terms of the major policy decisions now confronting the nation this, in my judgment, is by all odds the most important policy implication of the data and analysis summarized in this paper.[14]

---

12 Points one and three are discussed in Professor Lintner's present paper; the evidence in support of points two and four is developed in Butters and Lintner, *op. cit.* The subsequent evidence from the later study of *Investments by Individuals*, cited above, also points to the same conclusion.

13 Address by Secretary of the Treasury George M. Humphrey, April 20, 1953.

14 Space does not permit a more extended development of the policy implications of our discussion in this paper. Some aspects of the matter are developed in more detail in Butters. Thompson, and Bollinger, *op. cit.*, pp. 62.-68.

## Financial Planning Corp. Formed in NY

The Financial Planning Corporation, chartered to sell both insurance and investment securities, has started operations, with offices at 101 Park Avenue, New York City.

Thomas H. Bennett, until recently a New York wholesale representative of Distributors Group, is President. The company plans to provide financial programs individually tailored to the needs of investors and businesses. It states that its representatives will be licensed insurance men as well as registered with the National Association of Securities Dealers, Inc.

# Railroad Securities

## Chicago & Eastern Illinois

The management of Chicago & Eastern Illinois has come forward with an ingenious plan of recapitalization which will be followed closely by students of railroad finances. It is proposed, subject to approval by the Interstate Commerce Commission and stockholders, to exchange the present class "A" (preferred) stock into a new 100-year 5% income bond. Each share of the stock, which is entitled to preferential dividends of $2.00 a share, cumulative to the extent earned, would receive in exchange $40 par value of the new bonds. The objective of the proposed plan is to lighten the Federal income tax burden. Income bond interest is deductible before Federal income taxes are computed while preferred dividends are not.

There appears to be little question but that stockholders will approve the necessary changes in the company's charter and creation of the new bond issues. Both the class "A" and the common would benefit. Income of holders of the class "A" stock would remain unchanged and payment would still be contingent on earnings. However, as pointed out by the management, payment of interest on the income bonds would be mandatory to the extent earned while payment of the class "A" dividend, even though it is cumulative to the extent earned, is discretionary with the directors. It is payable only as declared. So far as the common is concerned it will benefit from an increase in its potential earning power. It is indicated that the net tax saving would amount to approximately $1.00 a share at current tax rates. This compares with actual earnings, before sinking and other reserve funds, of $4.79 a share for the 12 months through October, 1953.

While approval by stockholders is considered a foregone conclusion, there is considerable question in the minds of many railroad analysts as to whether or not the Interstate Commerce Commission approval will be forthcoming. It is felt that the Commission may not look kindly on a proposal to substitute debt for an equity security, even though the new debt created has a very long maturity and interest thereon does not constitute a fixed charge. In this connection it is being pointed out specifically that in the case of Chicago & Eastern Illinois the debt has already been increased substantially since reorganization through the sale of equipment obligations.

This question of debt versus equity capital has been a controversial one for many years. Throughout the years when the Commission and the Courts were formulating and litigating the many reorganization plans under the then new Section 77 of the Bankruptcy Act, the Commission was consistently being urged by interested parties not to provide for any part of the claims with new preferred stocks. It was argued that substitution of a junior, or subordinated, income bond for preferreds would result in an equally "depression proof" capitalization, as the interest would be payable only if earned, and at the same time would mitigate the burden of heavy Federal income taxes. Despite these pleas, the Commission held consistently to its formula of a balanced capitalization. It will be interesting to see if this philosophy has been changed by the developments of recent years.

The broad interest in the success or failure of the recapitalization of this relatively small railroad lies in the prospective establishment of an important precedent. If the attitude of the Commission has changed over the years, as would be indicated in approval of the Chicago & Eastern Illinois plan, it is felt in many quarters that a number of other carriers might logically come forward with similar proposals. The step would be particularly feasible for those roads that have reduced their overall debt structures since consummation of reorganization, or those roads that remained solvent through the depression and have since cut back their debt materially. The potentialities are very interesting.

## James C. Vacha Joins Republic Investm't Co.

James C. Vacha

CHICAGO, Ill.—James C. Vacha has become associated with Republic Investment Company, Inc., 141 West Jackson Boulevard, in the Trading Department. Mr. Vacha was formerly an officer of Webber-Simpson & Co.

## Fiber Glass Plastics Class A Stk. Offered

Aetna Securities Corp. of New York City is offering 200,000 shares of Fiber Glass Plastics Corp. class "A" stock at $1.50 per share.

Proceeds from the sale of these shares will be used to pay the balance of the purchase price of a plant, and for the purchase of additional equipment, plant expansion, advertising and working capital. The corporation has acquired the plant facilities, drawings, dies, molds and production models of Eugene L. Vidal in Stamford, Conn. These facilities have heretofore been operated primarily for research and product development. It is the purpose of the corporation to expand such facilities and to manufacture and sell a number of items heretofore developed by Mr. Vidal.

Fiber Glass Plastics Corp. intends to engage in vacuum molding of thermoplastics as well as press die molding of fiber glass plastic products. The corporation's principal fiber glass-plastic items will be tote boxes (carrying boxes used for deliveries), made in various models and shapes and forms of construction, which have been in use by three major baking companies for the past several years, soft drink carrying cases, food boxes, candy and restaurant trays, auto and aircraft parts, and window panes, storm awnings and jalousie shutters.

# NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED
CAPITALIZATIONS

E. Chester Gersten, President of **The Public National Bank and Trust Company of New York** was guest of honor at a dinner given at the New York Athletic Club on Jan. 9, by the Senior Officers to commemorate the anniversary of his twenty - fifth year as President. The highlight of the dinner was the presentation to Mr. Gersten of a wood carving of the Bank's main office building at 37 Broad Street, New York, executed by Vincent Glinsky, a famous contemporary sculptor.

E. Chester Gersten

The replica of the Bank (itself an architectural masterpiece) is constructed on a 1/16 inch by 1 foot by 0 inch scale. Concealed within it is an eight-day spring driven pendulum movement activating a reproduction of the Westminister Chimes. The cabinet of birch wood has a special finish which, while sealing the surface, retains the beauty of the naked wood.

A hand-carved inscription on the back of the replica reads: "A Token of the Twenty-Fifth Anniversary of E. Chester Gersten as President of The Public National Bank and Trust Company of New York with the Loyal Affection and Esteem of the Senior Officers for his Devoted Leadership." An inscription on the inside reads: "Conceived and designed to fill these specifications: it should symbolize the career of a man . . . who created an outstanding Bank; while monumental in effect, it should be more than a static object and should have animation so as to be compatible with the dynamic personality of the person to whom it is presented; it should be unique in design and execution in order to reflect his accomplishments."

Mr. Gersten started his banking career in 1909 as a messenger for the National Bank of Commerce in New York. After working his way up to Vice-President of that institution, he became President of Public National on Jan. 9, 1929. Since that time the bank's resources have increased from $138,000,000 to $546,000,000.

* * *

Election of Louis A. Albarracin and Leo F. Kelley as Vice-Presidents in the Foreign Department of the **Chase National Bank, New York** was announced on Jan. 12 by Percy J. Ebbott, President.

Mr. Albarracin, who is in the Latin-American division, has been a Second Vice-President since 1944. He joined the Equitable Trust Company 33 years ago, which was merged with Chase in 1930. Mr. Kelley joined Chase in 1930 and is in the European division. He also became Second Vice-President in 1944.

The bank also appointed as Resident Vice-Presidents Hermann P. Volz, branches in Germany; James P. Duddy, branches in Japan, and Carl B. Brunner, branches in Puerto Rico.

* * *

A Group Retirement Program for officers and employees of its correspondent banks is announced by **Manufacturers Trust Company (New York)**.

"In order to be of further service to our correspondent banks," President H. C. Flanigan said, "we have been working on ways to develop a flexible group retirement program that would be suitable for all participating banks, regardless of size. The unique feature of this new program is that each participating bank can have its own plan, tailor-made to fit its particular needs. There is no attempt at standardization."

Under this group arrangement, each participating bank decides upon the details of its own plan, such as eligibility, retirement age, vesting, and the benefit formula. To assist banks in formulating their own retirement plans, Manufacturers Trust Company is offering its own services and will make available those of independent actuaries.

When a bank decides to participate, it will establish its own retirement plan for the benefit of its officers and employees, and execute a trust agreement with the Manufacturers Trust Company as Trustee. This agreement will authorize the Trustee to invest the funds of the trust with the funds of all other participants.

Manufacturers Trust Company is a pioneer in the field of providing employee benefits for its correspondent banks, having established in 1947 a Group Life Insurance Plan in which more than 500 banks now participate.

* * *

**The Bank of New York, New York**, John C. Traphagen, Chairman, announced on Jan. 12 the election as a Trustee of Alexander Calder, Jr., Executive Vice-President and Director of the Union Bag and Paper Corporation.

* * *

**Bronx County Trust Company, New York**, officials honored two of their associates, each of whom has completed 50 years of service with the bank, at a dinner on Jan. 13.

Marking their Golden Jubilee as Bronx bankers were William Grosch, Assistant Vice-President, and John J. Reddington, Manager of the banking department at the Main Office.

Mr. Grosch began his career with Bronx County Trust Company on Jan. 11, 1904 when the bank was known as the 23rd Ward Bank. It was not until 1926 that the bank changed its name to Bronx County Trust Company. Mr. Reddington's career with the bank started five months earlier in August, 1903.

Both officials recall that at the start of their banking careers, Bronx County Trust Company had two offices and less than $2,000,000 on deposit. Today, the bank has a system of nine offices and resources of almost $70,000,000.

Thomas P. Lynch, the fifth President of Bronx County Trust Company under whom the celebrants have served, presented gold watches to both honored guests at the dinner.

* * *

**Irving Trust Company New York** announced on Jan. 8 that William H. McCoach has been named Assistant Vice-President and Albert A. Bliss Assistant Counsel. Alpheus H. Albert, Jr. and Thomas J. Rohde have also been elected Assistant Secretaries.

Mr. McCoach is administrative officer of agency business in the Corporate Trust Division.

Mr. Bliss, a member of the Legal Division, came to the Irving in 1943.

Mr. Albert joined the Irving in 1951. He is presently acting as a loaning and customer contact officer at the Irving's Empire State Branch Office.

Mr. Rhode, a member of the Personal Trust Division, has had wide experience in trust and estate administration.

* * *

George Faunce III, recently released from active duty with the United States Navy, has been reappointed an Assistant Secretary of **The Hanover Bank, New York** and is assigned to the Rockefeller Center office.

Mr. Faunce, who joined the bank in July, 1948, first was appointed an Assistant Secretary in December, 1951. Shortly thereafter he was recalled to active duty with the Navy.

* * *

Hoyt Ammidon was elected a member of the Board of Trustees of **United States Trust Company of New York**, it was announced on Jan. 7 by Benjamin Strong, President.

Mr. Ammidon, Trustee, was formerly Vice President of The Hanover Bank.

The appointment of Alfred A. Fraser as Assistant Vice-President, and Joseph C. Cherry and Fred W. Gundersdorf as Assistant Secretaries was also announced at the same time.

Mr. Fraser, who joined the Company in 1930, has been an Assistant Secretary since April 1949.

Mr. Cherry has been identified with the Company's Investment Department for the past twenty years, and Mr. Gundersdorf has been with the Corporate Trust and Transfer Departments since 1928.

* * *

**Brown Brothers Harriman & Co. New York** has announced the appointment of Arthur L. Nash as a manager. Mr. Nash, formerly an assistant manager, is a credit executive of the bank and has been with Brown Brothers Harriman & Co. since 1928.

* * *

**West Side Savings Bank, New York** on Jan. 7 opened its new Varick Street office for business and 450 new accounts were opened the first morning.

* * *

Following a meeting of the Board of Trustees, Mr. Charles D. Behrens, President of the **Kings County Savings Bank, Brooklyn, N. Y.**, announced the following promotions:

Charles F. Brau, former Comptroller, now Vice-President and Comptroller; James B. Crane, former Mortgage and Real Estate Officer, now Vice-President and Mortgage Officer; and Lewis Fuhr, former Assistant Vice-President, to Vice-President. Mr. Fuhr has been a Trustee for the past three years.

* * *

John J. Ryan, Vice-President and Counsel for Republic Aviation Corporation, Farmingdale, was elected a Director of the **First Suffolk National Bank of Huntington, Long Island, N. Y.** at its shareholders' meeting on Jan. 12.

The First Suffolk National Bank, with total resources of $27,165,000, is Suffolk County's largest commercial bank.

* * *

**The Franklin National Bank of Franklin Square, New York**, with common stock of $5,600,000, and **The First National Bank of Bellemore, New York**, with common stock of $100,000 were consolidated as of the close of business Dec. 30, 1953 under the title and charter of "The Franklin National Bank of Franklin Square."

At the effective date of consolidation the consolidated bank had capital stock of $5,735,000, divided into 573,500 shares of common stock of the par value of $10 each; surplus of $5,735,000; and undivided profits of not less than $1,605,000.

* * *

At a meeting of the shareholders of **The First National Bank of Toms River, N. J.** held January 12, 1954, the shareholders authorized the increase in the capital stock of the bank from $750,000, to $780,000 by the payment of a stock dividend of one share for each 25 shares held.

The shareholders also authorized a further increase in the capital stock from $780,000 to $810,000 for the purpose of offering to the shareholders of record on May 1, 1954 the right to subscribe for new shares on a basis of one new share for each 26 shares held at $50 a share at a time and date to be set by the directors.

At a meeting of the directors following the shareholders meeting, the stock dividend of one share for each 25 shares was declared payable Jan. 30, 1954 to all shareholders of record Jan. 15, 1954.

The board further authorized warrants for the right to subscribe for new shares to be mailed to the shareholders on May 14, 1954. Each shareholder will be given the right to subscribe for one new share for each 26 shares held, which shares must be subscribed and paid for on or before June 16, 1954. The directors of the bank have individually underwritten the sale of the entire issue at no cost to the bank.

Simultaneously with the payment of the stock dividend of 3,000 shares on Jan. 30, 1954, $30,000 will be transferred from the Undivided Profits Account to the Capital Account of the bank, increasing the capital from $750,000 to $780,000 and at the same time $90,000 will be transferred from the Undivided Profits Account to the Surplus Account, increasing the surplus from $1,200,000 to $1,290,000.

The sale of the 3,000 additional shares on June 16, 1954 will further increase the capital stock outstanding from 78,000 shares of $10 par value, a total of $780,000 to 81,000 shares of $10 par value, a total of $810,000 and will increase the surplus of the bank from $1,290,000 to $1,410,000.

* * *

Mr. F. Raymond Peterson, Chairman of **First National Bank of Paterson, Cilfton and Pompton Lakes, N. J.**, announced that at the Board of Directors meeting on Jan. 4th $1,000,000 was transferred to surplus from undivided profits.

The First National has outstanding 150,000 shares of $25.00 par value stock for a total capital of $3,750,000.00

This latest transfer of $1,000,000 increases the surplus to $6,250,000 and gives the Bank a capital and surplus of $10,000,000.

Mr. Peterson stated that after the completion of the transfer the figure of undivided profits stood at approximately $3,400,000.

Mr. Peterson, also announced the promotion of John E. Livesey and Ambrose Donnelly from Assistant Vice-Presidents to Vice-Presidents.

* * *

**FIDELITY-PHILADELPHIA TRUST CO., PHILADELPHIA, PA.**

| | Dec. 31,'53 | Mar. 31,'53 |
|---|---|---|
| | $ | $ |
| Total resources | 275,895,359 | 249,070,246 |
| Deposits | 244,026,548 | 218,033,623 |
| Cash and due from banks | 67,346,560 | 55,856,844 |
| U. S. Govt. security holdings | 64,999,833 | 49,704,478 |
| Loans & discounts | 118,912,583 | 115,292,568 |
| Undivided profits | 5,206,414 | 4,719,093 |

* * *

**The First National Bank, Cumberland, Maryland**, announced the promotion of six members of their official staff, Walter C. Capper, Senior Vice-President; H. C. Landis, Vice-President and Cashier; T. V. Fier, Vice-President and Trust Officer; Ray Blose, Vice-President; Miss Hazel H. Oder, Assistant Cashier; A. A. Helmick, Assistant Cashier.

* * *

Stockholders of **The Bank of Virginia, Richmond, Va.**, have approved an immediate three-for-one stock split of the 120,000 outstanding shares, by vote at their annual meeting held in Richmond on January 8. At the same time the $20 par value of the present shares was changed to $10 for the new 360,000 shares.

Thomas C. Boushall, President of the Bank, stated that following this stockholder action, the bank's board of directors authorized him to say that the new $10 par value stock will be placed on a 25-cent quarterly dividend basis.

The program of the split-up was given in the Dec. 24, 1953 issue of the "Chronicle," page 2552.

Harry W. Easterly, Jr., was elected a member of the Board of Directors at the annual meeting.

* * *

**CENTRAL NATIONAL BANK OF CLEVELAND, OHIO**

| | Dec. 31,'53 | Sept. 30,'53 |
|---|---|---|
| | $ | $ |
| Total resources | 521,869,991 | 487,486,857 |
| Deposits | 489,148,070 | 458,120,403 |
| Cash and due from banks | 125,961,849 | 118,775,394 |
| U. S. Govt. security holdings | 196,553,705 | 193,328,904 |
| Loans & discounts | 187,552,798 | 169,159,019 |
| Undivided profits | 1,737,995 | 2,709,935 |

* * *

**SOCIETY FOR SAVINGS IN THE CITY OF CLEVELAND, OHIO**

| | Dec. 31,'53 | Sept. 30,'53 |
|---|---|---|
| | $ | $ |
| Total resources | 293,742,866 | 290,735,432 |
| Deposits | 271,414,870 | 266,922,578 |
| Cash and due from banks | 22,576,469 | 19,899,559 |
| U. S. Govt. security holdings | 82,462,248 | 77,665,908 |
| Loans & discounts | 157,896,151 | 157,789,530 |

* * *

Stockholders of **Harris Trust and Savings Bank, Chicago, Ill.**, approved increasing the number of the bank's directors from eighteen to twenty-one and elected three new directors at their annual meeting on Jan. 13.

The three new members of the Harris Bank's board are David Graham, Norman W. Harris, and Kenneth V. Zwiener, Vice-President of the bank.

Mr. Harris, son of Albert W. Harris, retired President and Chairman of the Harris Trust, joined the bond department of the Harris Trust. He was Vice-President and Secretary of The N. W. Harris Company, securities affiliate of the bank, from 1927 to 1934. In 1935 he became Vice-President and Director of Harris, Hall & Company, successor to the corporate bond business of the bank.

Mr. Zwiener joined the bond department of The Harris Bank in San Francisco. He came to Chicago in 1932 and after serving in many departments of the bank was elected an Assistant Cashier in 1939, becoming Assistant Vice-President in 1943 and Vice-President in 1946. Zwiener has served as Chairman of a loaning division and is Chairman of the bank's portfolio investment committee.

The eighteen incumbent directors were re-elected, including Richard E. Pritchard, who retired as a Vice-President of the bank on Dec. 31. The board of directors, at its organization meeting immediately following the stockholders' meeting, re-elected all other officers.

The Directors appointed as members of the directors' trust committee for the year Wayne A. Johnston, Chairman; Harold H. Swift, Vice-Chairman; John G. Searle, and James L. Palmer.

* * *

By a stock dividend the common capital stock of the **National Bank of Commerce of Chicago, Illinois** was increased from $900,000 to **$1,000,000**, effective Dec. 29.

* * *

**CONTINENTAL ILLINOIS NATL. BANK AND TRUST CO. OF CHICAGO, ILL.**

| | Dec. 31, '53 | Dec. 31, '52 |
|---|---|---|
| | $ | $ |
| Total resources | 2,779,561,638 | 2,800,500,848 |
| Deposits | 2,536,500,395 | 2,568,797,375 |
| Cash and due from banks | 699,384,694 | 559,158,953 |
| U. S. Govt. Security holdgs. | 1,116,306,512 | 1,296,855,069 |
| Loans & discts. | 793,434,004 | 767,043,046 |
| Undivid. profits | 32,929,237 | 24,073,147 |

* * *

**The First National Bank of Bismarck, North Dakota** increased its common capital stock from $200,-

000 to $400,000 by a stock dividend, effective Dec. 30.

* * *

**NATIONAL BANK OF DETROIT, DETROIT, MICH.**

| | Dec. 31, '53 | June 30, '53 |
|---|---|---|
| | $ | $ |
| Total resources | 1,808,694,129 | 1,762,490,772 |
| Deposits | 1,700,406,934 | 1,672,060,497 |
| Cash and due from banks | 442,421,085 | 463,212,795 |
| U. S. Govt. security holdgs. | 800,652,605 | 705,517,929 |
| Loans & discts. | 439,095,506 | 442,457,009 |
| Undivid. profits | 12,851,364 | 16,147,958 |

* * *

**THE DETROIT BANK, DETROIT, MICH.**

| | Dec. 31,'53 | Dec. 31,'52 |
|---|---|---|
| | $ | $ |
| Total resources | 756,163,458 | 699,931,349 |
| Deposits | 717,139,224 | 664,029,734 |
| Cash and due from banks | 135,718,762 | 128,185,082 |
| U. S. Govt. security holdings | 317,402,417 | 311,050,514 |
| Loans & discounts | 115,267,776 | 97,766,369 |
| Undivided profits | 7,110,229 | 4,450,289 |

* * *

The board of directors of the **First National Bank of Mobile, Alabama**, has authorized the transfer of $500,000 to surplus from undivided profits and reserves accumulated during 1953 and in prior years' earnings.

The board's action, taken Dec. 30, increases the bank's surplus to $3,500,000, with the capital of $1,000,000 remaining unchanged.

Increases of a like amount were made from earnings in December, 1949, and December, 1951.

H. A. Pharr, President, said that it has been First National's policy to keep the bank's capital funds increasing in proportion to deposits.

It was stated that the latest addition brings the total capital and surplus of the bank up to $4,500,000, the largest of any bank in Alabama outside of Birmingham.

* * *

S. C. Beise, Senior Vice-President of the **Bank of America, San Francisco, California** announced that three officers of the Loan Supervision department have been promoted to Assistant Vice-Presidencies.

All three men have their offices in San Francisco headquarters. They are J. J. Cannon, E. Gunther, and H. F. Osborn, all of whom previously held the rank of Assistant Cashier. Mr. Gunther and Mr. Osborn have duties in the department's foreign section.

* * *

Effective Dec. 31 **The United States National Bank of San Diego,, California** by its sale of new stock, increased its common capital stock from $900,000 to $1,000,000.

* * *

Promotions of five officers at **Wells Fargo Bank & Union Trust Co., San Francisco, California** were announced on Jan. 7 by I. W. Hellman, President, following the bank's annual stockholders' meeting. In Wells Fargo's Department of Banks, Albert W. Larsen was elected Vice-President and Wood W. Wilkinson Assistant Vice-President; W. Kent Dyson was promoted to Vice-President and Victor H. Winfrey to Assistant Vice-President; the latter officers are in the Business Development work in the bank. Paul W. Hiltman of the bank's Union Trust Office was made Assistant Cashier.

G. W. Wickland, Vice-President, announced his retirement from the bank because of illness, after thirty-three years of service.

* * *

**The Teikoku Bank Limited, Tokyo, Japan**, announced that, in accordance with the resolution adopted at the General Meeting of the Shareholders held on Nov. 28, the name of the Bank would revert to the old and prewar title of **The Mitsui Bank, Limited** and would operate its business in that name on and after Jan. 1, 1954.

The foregoing change does not in any way affect the identity of the bank.

*Continued from page 7*

# Do Our Wage-Fixing Arrangements Promote Inflation?

shared by a number of economists, and I wish to examine the evidence for and against them. It would be surprising, I think, if the views of Professor Friedman were correct. It is the principal purpose of the trade union movement to influence the level of money wages. Unions have demonstrated many times their ability to force employers to accept unwelcome conditions, such as the closed shop of the union shop. Even the automobile workers' and steel workers' unions, which Mr. Friedman regards as weak, have established the union shop in their industries, formerly citadels of the open shop. It would be strange if the bargaining ability of unions were so specialized that unions were able to force employers to accept the deeply - abominated union or closed shop and yet not force them to pay somewhat higher money wages than they would otherwise pay.

Such a glaring failure of unions to achieve one of their principal aims would also be surprising because trade unions introduce an important change in the institutions of the labor market. In the absence of unions, pricing in the labor market is on a take it or leave it basis, similar in a way to most retail markets except that in the retail market the seller names the "take-it-or-leave-it" price and in the labor market the buyer names the take-it-or-leave-it price. It is to be expected that negotiated prices would be more responsibe to increases in demand than the take-it-or-leave-it price. The quickness of the response is likely to have important long-run consequences because it may determine whether savings in cost are captured by the workers before they are passed on to consumers. Finally, it is the purpose of trade unions to manipulate the supply curve for labor and to see that the supply curve shifts to the left in response to rightward shifts in the demand curve. Have unions failed pretty completely in executing this purpose?

The view that unions may not accelerate the rise of money wages in the long-run or that they may even retard the rise of money wages is supported by three principal reasons. In the first place, it is said that managers, realizing that unions will strongly oppose wage cuts, are less willing to raise the wages of union workers than the wages of non-union workers. In the second place, attention is called to the fact that union contracts in the past have usually run for a year or more (or at least have usually not required negotiations on general wage changes more frequently than once a year). Hence, it is said that unions are unable to press promptly for wage increases when business expands. Finally, it is pointed out that union leaders sometimes seek to discourage stiff wage demands because they believe that the boom will be temporary and that large wage increases will price the union members out of the market.

All of these reasons, it will be observed, relate to the influence of unions during periods of expansion rather than during periods of contraction. I do not believe that the first of these three suggested influences has been important, but the other two have at times had limited influence on union wages. The possibility of cutting the wages of non-union workers in case business turns bad has little or no influence on the willingness of employers to increase the wages of non-union workers. The reason is that wage cuts are likely to cause trouble even when the workers are not union. In fact, such wage cuts are likely to lead the men to organize.[14] A notable example of a union contract's retarding wage increases was the three-year contract made by the United Miners shortly before the United States entered the First World War. Wages soon rose far above the rates specified in the contract and the mines which held to the contract rates experienced wild cat strikes. The union made heroic efforts to see that employers got labor at the rates agreed to (in spite of the fact that these were minimum rates) but the market soon compelled the negotiation of new rates.[15] Today unions and employers are well aware of the pitfalls in long-term contracts and rarely freeze wages for more than a year. Many of the contracts negotiated in recent years have provided almost unlimited reopening of wages on relatively short notice.[16] There have been times too when union leaders have sought to limit the wage demands of their members. This happened in some of the building trades unions during the Second World War. The leaders remembered the difficult adjustments when prices fell after the First World War and they wished to avoid repetition of that experience. And union leaders quite commonly warn their members against the danger of getting union rates too much above the rates in competing non-union plants. But evidence that union leaders do this hardly supports the view that unions do not push up rates faster than they would otherwise rise.

It is plain that unions have a considerable effect upon the structure of money wages. Innumerable comparisons can be provided showing that unions enforce substantially higher wage scales than are paid by non-union employers. True, there are plenty of non-union employers who take care to meet the union scale and, now that the threat of unionization has become strong, some who deliberately pay more than the union scale. Even today, however, the most frequent case is the one of higher wage scales in union plants. Furthermore, the history of unionism is full of instances of unions' forcing a large part of their employers out of business through enforcing differentials above the non-union scale. Examples are the coal miners' union, the hosiery workers, the men's clothing workers (the Chicago market), the potters, the tapestry carpet weavers, the shoe workers, the flint glass workers, the cotton textile workers, the women's garment workers, the handbag workers, and others.

But the ability of unions to modify the structure of wages does not indicate that unions affect the movement of wages through time. Their influence on the structure of wages may be a once-for-all effect unaccompanied by any tendency of unions to accelerate the rise in money wages. Several attempts have been made to measure the effects of unions on wages through time. Douglas' pioneer attempt, in his **"Real Wages in the United States 1890-1926,"** produced ambiguous results because his union figures are in the main time-rate figures and his socalled "payroll" figures (which came from industries in which unions were weak) came mainly from industries (textiles, hosiery, men's clothing, boots and shoes, meat packing, iron and steel) in which piece rates or tonnage rates predominate. Hence the comparison is as much one of relative movement of day-work and piece-work earnings through time as it is one of the movement of union and non-union earnings.[17] The investigations of Ross and Goldner lead them to conclude that recently organized unions tend to accelerate the rise in hourly earnings.[18] But Ross and Goldner measure wage changes in absolute rather than relative terms—a procedure which I think is incorrect. Hence, although I believe that this part of their conclusion is correct, their proof is unsatisfactory—they have perhaps demonstrated that unions grew fastest in the industries which happened to have the highest wages in 1933, but they have not shown that unions accelerate the rise in wages.[19]

The most comprehensive and thorough investigation of the movement of union and non-union wage rates is that of H. M. Levinson.[20] He divides the period he studied into seven principal parts—1914-1920, 1920-1923, 1923-1929, 1929-1933, 1933-1938, 1938-1941, and 1941-1947. Two of these seven periods (1920-1923 and 1929-1933) were mainly or entirely times of business contraction. In both of these periods the hourly earnings in the more highly organized industries showed much less tendency to drop than hourly earnings in the less organized industries.[21] There will be little dispute, I think, that unions tend to hold up wages in periods of severe contraction — they widen the gap in the labor supply curve immediately to the left of the existing wage. As a matter of fact, unions push wages up during the early parts of business contractions. For example, union rates in the printing industry and the construction industry continued to climb for two years after the stock market crash of 1929.[22]

One of the periods covered by Mr. Levinson was the time of the Second World War, from 1941 to 1947. Government controls of wages were so complete during this period that it is not surprising to find no relationship between the degree of union organizations and the movement of wages. Government policy was devoted in the main to two objectives: (1) to prevent the bargaining power of the strong unions from producing inflationary wage increases, and (2) to concentrate wage increases more or less among the lowest-paid workers in order to give relief from rising prices where it was presumably most needed. Nearly all of the unions cooperated in this government policy. The miners were the principal exception. There was a considerable rise of union membership during the war (from 10.5 million in 1941 to over 13 million in 1945) and many strikes for higher wages. Both the increase in membership and the strikes may have occurred in order to hurry up the decisions of the War Labor Board. Hence it is possible that union pressures weakened the wage stabilization policy moderately, but I do not believe that this effect, if it existed, was significant.[23]

Another period studied by Levinson, 1923-1929, was a time of prosperity but not of general boom—the speculative buying was limited to the stock market and real estate. It was a time when unions as a whole were not prospering. Total union membership remained unchanged at 3.6 million between 1923 and 1929 making no recovery from the 1.4 million drop from the peak in 1920.[24] In this period of weakness unions influenced the wages of their own members but had little influence on wages outside their union plants. Hence a comparison of wages in highly unionized industries and poorly organized industries clearly shows the influence of unions. This is well brought out by Levinson's figures which show union wages in all wage classes definitely outrunning non-union wages between 1923 and 1929.[25]

Of the remaining three periods studied by Levinson, the first, 1914 to 1920, was for the most part a strong sellers' market, and the other two (1933-1938 and 1938-1941) were times of rapidly rising wages in the face of substantial unemployment and of strong government intervention in the labor market. In the first period, 1914 to 1920, non-union wages rose considerably faster than union wages.[26] In the other two periods union and non-union wages went up at more or less the same rate.[27] And yet despite the fact that during the First World War non-union wages rose faster than union wages and that during the periods 1933 to 1938 and 1938 to 1941 union and non-union wages rose at about the same rate. I think that union pressures for higher wages substantially accelerated the rise of all wages in these periods. This assertion requires that I explain some of the limitations in the method of de-

*Continued on page 30*

14 Even reducing the weekly take-home by abolishing overtime may cause trouble as employers discovered in the fall of 1945.

15 A case where the long-term contract worked in the opposite way was the five-year agreement in the New York printing industry effective in January 1928. It provided for annual wage increases. By that time the depression was well advanced the employers were seeking relief. They obtained some relief from the pressmen but not from the compositors.

16 This was particularly true in 1946 and 1947. Unions wished liberal reopening clauses because they feared inflation, employers because they feared deflation.

17 Douglas finds greater cyclical fluctuations in "payroll" wages than in union wages, with a tendency for union wages to rise more slowly than payroll wages in periods of expansion and to fall more slowly in periods of recession—or for union wages not to fall at all in periods of recession. But this is the kind of contrast in movement that one would expect to find between hourly earnings based on day rates and hourly earnings based on piece rates. I suspect that the cyclical differences in the wages of the two groups was a result partly of the fact that one group was organized and the other not and partly of the fact that one group was mainly time workers and the other mainly piece workers. But the relative influence of these conditions cannot be measured.

The fact that in the 36 years from 1890 to 1926 the hourly earnings of the union group rose almost as much as the hourly earnings of the other group attests to the influence of unions. The earnings of piece workers have a tendency to rise faster than the earnings of time workers because many small changes in materials, equipment, and method do not lead to the rates being re-set. Hence the fact that the hourly earnings of union time workers rose over the entire period almost as rapidly as the earnings of non-union piece workers, indicates that unions had a strong influence on wages. On the tendency of the earnings of piece workers to rise faster than wage rates, see my *Union Policies and Industrial Management*, pp. 255, 256 and 293.

18 "The Interindustry Wage Structure," *Quarterly Journal of Economics*, May 1950. Vol. LXIV, pp. 254-281.

19 I agree with Ross and Goldner that "the strongest influences on wages seem to have operated throughout the economy rather than affected individual industries differentially." *Ibid.*, p. 280. I believe, however, that at least since 1933 unions should be regarded primarily as a general market influence.

20 *Unionism, Wage Trends, and Income Distribution*, 1914-1947, Michigan Business Studies, Vol. X.

21 Levinson, *Ibid.*, p. 47. The period 1920-1923 contained a year of recovery. In all the union industries wages were generally higher in 1923 than in 1920; in the non-union, wages were generally lower in 1923 than in 1920. But in 1922 union wages were below 1920 but less than non-union. *Ibid.*, pp. 34-35.

22 U. S. Bureau of Labor Statistics, "History of Wages in the United States From Colonial Times to 1928", *Bulletin No. 604*, pp. 521 and 574.

23 One of the techniques of wage control employed by the War Labor Board was to make decisions rather slowly. Thus, even retroactive decisions had the effect of postponing the time when wage increases were disbursed to workers. And there was the possibility that workers would be induced to put a good part of back pay disbursements into war savings bonds. Union pressures for quicker decisions produced results in individual cases, but probably did not affect the average time required to decide a case.

24 The building trades unions gained members because construction was expanding and so did unions in the public service. The miners and the railroad workers, however, lost ground and so did most unions in manufacturing.

25 Levinson, *Ibid.*, p. 47.

26 Levinson, *Ibid.*, p. 33.

27 Levinson, *Ibid.*, pp. 60-61 and 65.

Continued from page 29

# Do Our Wage-Fixing Arrangements Promote Inflation?

ducing the influence of unions on money wages by comparing the movements of wages in the well organized and less organized industries and that I adduce specific evidence for believing that unions accelerated the rise in the general level of money wages between 1914 and 1920 and between 1933 and 1941.

## VI

### Wages and Degree of Industry Organization

The attempt to deduce the influence of unions on money wages by comparing the movements of wages in highly organized industries with the movements in less well organized industries assumes that the influence of unions on wages is greater in the well organized industries than in the poorly organized industries. This seems like a reasonable assumption and it is true much of the time—particularly during severe recessions or other periods, such as 1923 to 1929, when unions are having tough going and are gaining few members. But the method breaks down in those times when unions exert great influence on the wages on non-union workers. Furthermore, the greater the influence of unions on the wages of non-union workers, the more complete is the breakdown of the method. In periods of strong sellers' markets, when unions are gaining members rapidly and winning large wage increases for their members and thus exerting a powerful influence on wages in non-union plants, the method of comparing wage changes in union and non-union plants may show no apparent influence of unions at all. Many unions may be held back a few months in raising the wages of their own members by unexpired agreements, and yet the unions which are negotiating may be winning large wage increases which have immediate repercussions among employers who fear that unionism will spread to their workers. Hence, unions may cause the money wages of non-union workers to rise faster than the average wages of all union workers. The method of attempting to detect the influence of unions by comparing the movements of union and non-union wages breaks down precisely at those times when the influence of unions is strongest.

All three periods, 1914-1920, 1933-1938, and 1938-1941, were times when unions were accentuating the effect of the rightward movements of demand curves by raising the supply price of labor but when the effects of unions on wages were obscured because unions were a general market influence. Let us consider first the period 1914 to 1920 when non-union wages outran union wages. Unions were not the only important influence on the supply side of the market because the war stopped the large influx of immigration, but unions were an important influence. Union membership virtually doubled between 1914 and 1920 and strikes and labor stoppages increased from 1,204 in 1914 to 4,450 in 1917 and remained well above 3,000 a year for the entire period. During 1919 more than one-fifth of so-called "employed wage earners" were at some time in the course of the year engaged in a strike — the largest proportion on record.[28] It is significant that the rise in hourly earnings between 1919 and 1920, according to the estimates of Douglas, were the largest (23.3%) for any year in the period. In more than half of the stoppages between 1914 and 1920 wages or hours were a major issue.

It would be fantastic to argue that the rapid spread of unionism and the great growth in the number of strikes did not alarm non-union employers and did not lead non-union employers to raise wages in an attempt to keep their people satisfied. The efforts of non-union employers to keep out unions are revealed in the spread of employee representation plans. Such plans had been quite rare prior to 1914.[29] They were adopted by many companies during the First World War in an effort to keep out unions.[30] Thus the fact that hourly earnings rose far faster relative to wholesale prices during the First World War than during the Civil War is attributable partly to the cessation of immigration and partly to the rapid spread of unionism and the fear that it would spread even faster than it did.

The periods 1933-1938 and 1938-1941 were also a time when the influence of unions on wages was so great that it was a general market influence greatly affecting the wages of non-union workers. The government also, especially through the National Industrial Recovery Act, the Bacon-Davis Act, and the Fair Labor Standards Act, exerted a powerful influence on wages, especially on the wages of the lowest paid employees and on wages in the South —wages which unions were least able to influence but which were effected by the NRA codes. Membership in unions almost quadrupled between 1933 and 1941, and work stoppages increased enormously. In 1933, strikes were more than twice as numerous as in 1932 and they were particularly numerous in 1934 and 1937. Union recognition was a much more frequent issue than wages and hours. Employers attempted to halt the spread of unionism by organizing employee representation plans as well as by making wage concessions. The employees covered by representation plans increased from about 1.3 million in 1932 to about 2.5 million in 1935.

Many employers who endeavored to halt the spread of unions by granting wage increases found themselves having to give a second increase after the first one failed to halt the growth of the union. The United States Steel Corporation is a typical example. On Nov. 6, 1936 the corporation offered the company unions a 10% wage increase. This was done at a time when more than 8 million people (about one-sixth of the labor force) were unemployed, when there had been little movement in the hourly earnings of factory workers for 10 months, and when there had been little movement in the consumers' price index for over a year. The increase failed to weaken the interest of the employees in unions. Hence, early in March 1937, the Carnegie-Illinois Steel Corporation and the Steel Workers Organizing Committee entered into an agreement by which the company recognized the union as the representative of its own members and granted a second wage increase of 10 cents an hour.

About the same time that the Steel Workers Organizing Committee was winning its important victory over U. S. Steel, the automobile workers were winning important victories over General Motors and Chrysler, and in April 1937, the constitutionality of the Wagner Act was upheld. Under the influence of the Roosevelt victory in November 1936, the steel settlement, and the victories of the automobile workers, hourly earnings in manufacturing which had scarcely changed in the face of rising industrial production between January 1936 and October 1936, continued to rise throughout 1937.[31] This increase in hourly earnings during 1937 occurred in the face of only a small rise in the adjusted index of industrial production from 116 in January to 121 in May, followed by a drop to 87 in December, in the face of falling prices after April, and in the face of a monthly average of 7.7 million unemployed, or about one-seventh of the labor force.

What happened to make hourly earnings rise substantially after remaining unchanged for 10 months in 1936? Simply the largest gain in union membership in any single year in the history of the United States! The great Roosevelt victory in November 1936 had much to do with stimulating the growth of unions. The growth in union membership between 1936 and 1937 was in excess of 3 million. At any rate, the gain between 1936 and 1937 was more than the entire trade union membership of the country at the bottom of the depression in 1933. The spurt in trade union membership was accompanied by a great eruption of strikes. The number of strikes doubled between 1936 and 1937, making 1937 the largest year up to then in the number of work stoppages and the next-to-the-largest in number of workers involved.[32] Can anyone contend that the enormous jump in trade union membership and the doubling of the number of strikes had nothing to do with wages rising in the latter half of 1937 in the face of falling production and rising unemployment?

## VII

### The Postwar Period

Of particular interest is the period from the end of the Second World War to the present. It is during this period (or most of it) that Professor Friedman asserts that the United Steel Workers and the United Automobile Workers held down the wages of their members. The rise in the hourly earnings of non - agricultural workers during this period has been rapid—about 65% from the beginning of 1946 to the middle of 1953. It has also been a time when hourly earnings in poorly organized industries have risen about as rapidly as in well organized industries. Retailing and wholesaling, which are poorly organized, have lagged a bit behind the better organized industries, but in the field of manufacturing hourly earnings in the poorly organized industries increased as rapidly as in the well organized ones. Among eight manufacturing industries with less than 40% organization in 1946, straight-time hourly earnings increased by 49.4% between January 1947 and July 1953, and among 18 manufacturing industries with 60% or more of the employees organized, hourly earnings increased by 48.8%. I believe, however, that the period 1946 to the present is one in which unions have exerted a powerful influence on the wages of non-union workers. Hence, efforts to test the effects of unions by reference to non-union wages break down. The influence of unions on wages throughout industry was reenforced by the wage policy of the government which with the end of the war quickly changed from one of holding down wages to one of encouraging wage increases. Let us seek to appraise the contribution of unions to the postwar wage price spiral by looking at the record.

For some months prior to V-J Day, factory employment had been dropping. It was 1.4 million less in August 1945 than in February 1945. It continued to drop for some months after V-J Day— it was 1.7 million less in December 1945 than in August 1945. Indeed, not until October 1946 did factory employment exceed the level of August 1945. Hours of work were falling also, and with them weekly take-home pay. Average weekly earnings in manufacturing, which had been $47.12 in April 1945, decreased to $41.72 in August and $40.97 in October. The consumers price index had changed little for some months prior to V-J Day and continued stable for some months after V-J Day. On Jan. 15, 1945, it stood at 127.1; in August at 129.3, and in February 1946 at 129.6.

The end of the war saw prompt moves by public officials to encourage workers to demand large wage increases. On Aug. 18, 1945, President Truman relaxed wage controls by permitting the War Labor Board and other agencies to allow employers to increase wages without government approval provided such increases were not used as the basis for raising prices or resisting proper price reductions. Early in September 1945, William H. Davis, Director of the Office of Economic Stabilization, announced that the government's objective was to stabilize the nation's economy by raising real wages 40% to 50% within the next five years.[33] Asked whether increases would not automatically mean higher prices, Mr. Davis replied that the importance of wages in the total cost picture varied from industry to industry, but that wages were not a major part of costs. In late October, President Truman in a broadcast to the nation urged "substantial" wage increases as "imperative . . . to sustain adequate purchasing power and raise the national income," with the line on prices held to avoid inflation.[34]

Enterprises which were cutting back hours to 40 a week (or in some cases to 44) saw the necessity of passing on at least part of the saving from the drop in overtime payments. Late in August and early in September, various oil and chemical companies announced reductions in hours and increases in wage rates. The earliest increases (in Hercules Powder and duPont, for example) were 10%, but on Sept. 9 the Standard Oil Company of New Jersey put into effect a 15% increase in pay together with a 40-hour week.[35]

The CIO unions were quite generally demanding a 30% rise in base rates. Although the cut in working hours was used to support the demand, the claim for higher wages was pressed regardless of what was being done about hours. The first big test came in the oil industry. By the end of September, oil refineries in six states were closed and early in October the President seized the plants of 11 oil companies. The key settlement in the oil industry came on Dec. 16, 1945 when the Sinclair Oil Company settled for an 18% wage increase. This settlement was followed in the next month or so by the other oil companies.

The next great test came in the automobile industry. The General Motors strike began on Nov. 21.[36] It was followed by large strikes in the electrical products industry on Jan. 15, 1946, the meat packing industry on Jan. 16, the steel industry on Jan. 18, the copper industry, and other industries. The large number of strikes in the latter part of 1945, and particularly the large number of workers involved, made 1945 by far the largest year on record in terms of man days idle and second only to 1919 in terms of the proportion of employed workers involved. But the year 1946 was destined far to surpass 1945 in time lost. The increase in the number of strikes was small and so was the rise in the proportion of workers involved (though one out of seven of the socalled "employed workers" participated in stoppages), but the longer duration of strikes caused the time lost nearly to treble. No other year comes close to 1946 in the amount of time lost by strikes or lockouts. In the great majority of strikes in both 1945 and 1946, the principal issue was wages.

The big strikes in the industries dominated by large and rich corporations (automobile, electrical products, steel, agricultural implements) were settled for about 18 to 18½ cents an hour. In the steel dispute, after the United States Steel Corporation had offered 15 cents, President Truman had proposed 18½ cents. Late in January, while the steel strike was still unsettled, Ford and Chrysler, which had not been struck, settled with the automobile workers for 18 cents and 18½ cents respectively, and these figures proved to be the approximate points of settlement of nearly all of the negotiations and disputes involving large and prominent enterprises.

The settlements were only several cents more than the employers had offered before the strikes. This fact shows that managements did a good job of estimating the willingness of the unions to fight. But the offers of employers to powerful and aggressive unions do not indicate what employers would have done in the absence of such unions. The socalled "pattern" settlements in the oil, automobile, steel and other industries were well above the settlements that were being made in industry and had the effect of accelerating the rise in wages generally. This is shown by comparisons of wage changes before and after the pattern-setting settlements in January and February 1946 and from the special survey of wage changes in 6,000 plants between Aug. 18, 1945 and May 1, 1946 made by the U. S. Bureau of Labor Statistics.

"Urban wage" rates had increased 1.7 cents per hour in the three months August 1945 to October 1945, and 4.3 cents in the four months October 1945 to February 1946. Following the "pattern" settlements, the rise in urban wage rates jumped to 5.3 cents

---

28 By "employed wage earners" the Bureau of Labor Statistics means all wage earners except those in occupations or professions in which strikes rarely, if ever, occur.

29 The idea of the employee representation plan got considerable advertising as a result of the adoption of a plan in the Colorado Fuel and Iron Company in 1945 after a bitter and bloody strike. The adoption of the plan was brought about through the influence of the Rockefeller interests after an investigation by W. L. Mackenzie King.

30 The Standard Oil Company of New Jersey, the Standard Oil Company of Indiana, the International Harvester Company, the Goodyear Tire and Rubber Company, the Westinghouse Electric and Manufacturing Company, the Bethlehem Steel Corporation, Yale and Towne were among the prominent companies adopting employee representation plans during this period. Not to be confused with the plans adopted by companies for the purpose of keeping out unions are the plans forced on companies by government agencies such as the National War Labor Board and which many employers bitterly resented.

31 Hourly earnings of factory workers were 55.3 cents in January 1936 and 55.5 cents in October 1936. In March 1937, they were 59.5 cents and in December 1937, 64.3 cents. U. S. Bureau of Labor Statistics, *Production-Worker Employment, Payrolls, Hours, and Earnings in Manufacturing Industries, 1914-1938*, L. S. 55-0902, 9-52, p. 9.

32 In the proportion of "employed wage earners" involved, however, 1937 was below both 1919 and 1922 and no greater than 1934.

33 New York "Times," Sept. 5, 1945.

34 The President said that "industry can afford substantial wage increases without raising prices" as the result of elimination of time and a half, downward reclassification of jobs in many industries, increased productivity, the present and prospective favorable profits prospects, and changes in the excess profits tax provisions. New York "Times," Oct. 31, 1945.

35 Some of the 10% increases accompanied a cut in hours from 44 to 40, whereas the 15% increases applied where cuts were from 48 to 40.

36 Other important strikes on wage issues preceded the General Motors strike —such as a strike of 30,000 New York longshoremen against a settlement by their union, a large strike in the lumber industry of the Pacific northwest, and a general strike in the flat glass industry.

in the two months February to April 1946.[37] The survey of the Bureau of Labor Statistics showed that in manufacturing most wage increases were far less than the pattern. Between V-J Day and May 1946, 21.3% of factory workers covered by the survey received no general wage increase at all, 15.2% received general increases of less than 10 cents an hour, 16.6% increases of 10 to 15 cents, 15.4% increases of 15 to 18 cents, and 23.7% increases of 19 cents and over.[38] The special survey of the Bureau of Labor Statistics showed that in the selected non-manufacturing industries (retailing, wholesaling, finance, services, heat, light and power) where union organization in general was weak, 59.2% of the workers received no general wage increase between Aug. 18, 1945 and May 1, 1946, and 25.2% more received increases of less than 10 cents. In other words, among this group of industries only 15.6% of the workers, or less than one-sixth, received an increase of 10 cents an hour or more. It seems clear that where unions were strong wages behaved quite differently from the way in which they behaved where unions were weak.

The evidence of the lags in wage increases in 1946 is of considerable interest. During the entire postwar period, hourly earnings in retailing and wholesaling, two large industries with little union membership, rose almost as fast as in manufacturing where two out of three production workers are union members. Between February 1946 and January 1953, straight-time hourly earnings increased by 66.5% in manufacturing, and hourly earnings increased 55.9% in wholesaling and 60% in retailing. And yet between Aug. 18, 1945 and May 1, 1946, 48.4% of the employees in wholesaling and 63.6% in retailing among the plants covered by the survey of the Bureau of Labor Statistics received no increases. The union industries were evidently setting the pace and the less well organized industries were following.

I shall not take time for extended comment on the other years of the period 1945-1953. In 1947 the settlements in the industries composed of wealthy and prominent corporations were on the basis of 15 cents on hour. There were some variations in the contents of the 15-cent package, but the sum of the contents was about the same. The year saw more people engaged in strikes than usual, but these strikes seem to have been small ones. After the big strikes of 1946 the large employers and the unions alike were anxious to avoid trouble. A threatened strike of oil workers in seven oil companies in five western states in February was averted by increases equivalent to more than 20 cents an hour.[39] When negotiations in the rubber industry broke down and the union issued a strike call to 100,000 men, a tentative settlement was made by a wage advance of 11.5 cents. This settlement, however, was obviously not regarded as a pattern because reopening of the wage issue was permitted after 120 days. The pattern was set by the settlement between General Motors and the United Electrical Workers in April for 15 cents. This was quickly followed by the same settlement in the steel industry, electrical products, agricultural implements, and the automobile industry generally. The agreement in the rubber industry was revised to meet the pattern.

The price which the large employers were willing to pay to keep the peace was definitely above the market. This is shown by a compilation of 310 settlements made just before and after April and during April. Less than 28% of these (86 out of 310) were for 15 cents or more, 83 were for less than 10 cents, and 61 for ten to eleven cents.[40] Among 180 settlements made in the first three months of 1947, 45, or one-fourth were for 15 cents an hour or more.

The year 1948 is difficult to interpret, but I conclude that the union influence in this year in most industries was less than in previous years. The large enterprises, which in 1947 were primarily concerned with avoiding the big strikes of 1946, were now primarily concerned with the wage-price spiral that had been fostered by the large wage increases of the last two years. As a result, there was a determined effort to hold the line. At the opening negotiations between the General Electric Co. and the United Electrical Workers, the company announced that it did not take care to take the responsibility for the inflationary effects of a wage increase. As a result, negotiations were deadlocked for weeks. In April, 1948, the United States Steel Corp. refused the demand of the steel workers for a "substantial" wage increase. The attempt of employers to hold the line led to deadlocks or breaking off of negotiations in the agricultural implement industry, the rubber industry, and the aluminum industry.

The union in the steel industry was bound by its contract not to strike. It remained to be seen whether any of the other large industrial unions would strike. They were obviously reluctant to do so, perhaps hoping that the lead would be taken by some other organization. In May, 1948, however, the United Automobile Workers attempted to bread the dealock by pulling a strike of its 75,000 members in the Chrysler Corp. Somewhat to the surprise of everyone the union succeeded in breaking the deadlock, but not in the way that had been foreseen. It was not an agreement between the U. A. W. and Chrysler which set the pattern. While the Chrysler strike was still unsettled, General Morors, instead of taking advantage of the union's preoccupation, offered an increase of 11 cents plus future adjustments for changes in the cost of living and an automatic increase of 3 cents a year for gains in productivity. The offer was accepted and became the basis for settlements in re-opened negotiations in the steel, aluminum, rubber, agricultural implements, and electrical products industries. These settlements did not contain the cost-of-living or productivity features of the General Motors settlement, but were generally for a straight 13 cents.[41]

I do not know the motives of General Motors in making its settlement. Perhaps the management thought that wage increases would be good for the economy as a whole; perhaps General Motors feared that Chrysler would not hold out much longer with its rivals making cars and would set a pattern that would be detrimental to the rest of the industry. The offer was on the generous side, and may well have been designed to force a quick settlement of the Chrysler strike and to reduce the danger of strikes elsewhere. That the settlement was generous is indicated by the fact that out of 129 wage settlements in March and April and in May up to the 20th, only 23 were for 13 cents an hour or more and 54 were for less than 10 cents an hour.[42] The effect of the settlement was to quicken the rise in hourly earnings in manufacturing. Between January and May hourly earnings had increased from $1.302 to $1.324 or 2.2 cents; in the same length of time, May to September, the increase was about 6.2 cents.

In 1949, a year of mild contraction, the influence of unions was definite, though limited. In the face of market conditions that would have yielded unorganized workers little or nothing, unions continued to make gains. It took some striking to win these gains, and the proportion of "employed workers" engaged in work stoppages increased from 5.5% in 1948 to 9.0% in 1949. The most notable union gain was the successful strike of the United Steel workers for non-contributory pensions. This victory lead in the following months to a rapid spread of non-contributory pension plans.

In both 1950 and 1951 the influence of unions on money wages was limited and was confined to particular industries. But in 1952 the steel workers won a great victory over the steel industry and the government which had far reaching effects on wages in other industries and virtually destroyed the wage stabilization policy of the government.[43] The victory of the union came after the longest strike in recent years in the industry and was equivalent to more than a 21-cent wage increase. The corporation had offered 15 cents an hour before the strike. How far the settlement was out of line with the market is indicated by the fact that out of 745 settlements in manufacturing industries in the three months, April, May and June, only 98 were for 15 cents or over and only 5 were for 20 cents or over. Among 520 settlements in non-manufacturing industries in the same period, 77 were for 20 cents an hour or more and 281 for 15 cents an hour or more.[44] The larger proportion of settlements for 15 cents or better among the non-manufacturing industries reflects the fact that there were many non-union plants outside of manufacturing which granted the increases allowed under the government's wage stabilization policy only after considerable delay.

The steel settlement stimulated rises in wages in many industries. The coal industry was the most notable. The union insisted on a large increase in spite of short-time and considerable unemployment in the industry. But straight-time hourly earnings in manufacturing, which had been unchanged since April, 1952, began to move up and by November were 5 cents higher than in July.

## VIII

### Theory and Policy

Let me conclude these remarks with a few observations on matters of theory and policy. It would be a miracle, no doubt, if the wage-fixing arrangements of the economy had no inflationary or deflationary bias—if they kept the general level of labor costs from rising or falling over the period of the business cycle and, therefore, provided a solid foundation for a stable price level. It looks very much as if the wage-fixing arrangements in the American economy have a small inflationary bias—that they tend to put up wages fast enough to require a slow advance in our price level.

The inflationary bias in the wage-fixing arrangements may be summarized as follows. Wages go up in some occupations or industries sooner and faster than elsewhere. The reasons for the much-larger-than-average increases vary from time to time and from industry to industry. In some instances, an aggressive and powerful union, such as the miners or the teamsters, may be partly responsible or largely responsible for the larger-than-average increase, but there are many possible reasons. Union are influenced by these larger-than-usual wage increases and seek to spread the large increases to their members. Unions are not wholly successful, of course, in spreading the maximum increases. Nevertheless, the fact that unions are powerful and prevalent tends to make wages in general more responsive to the largest wage increases. Furthermore, the fact that many managers of non-union plants fear the spread of unionism has the same effect. The largest increases considerably exceed the average increase in productivity. Hence, there is a strong possibility that the attempts of unions to generalize more or less the largest wage increases will produce a rise in labor costs which will produce either unemployment of a higher price level.

If the wage-fixing arrangements have an inflationary bias, what should be done about them? From the standpoint of the rest of the world, a slowly rising price level in the United States is greatly to be desired, and certainly it would promote the success of our foreign policy. But let us assume that for domestic reasons, we prefer a stable price level. What should be done? Some people say, "Correct the inflationary bias by tight credit policy." The economists of the Swedish trade unions say: "Make the employer do a better job of resisting labor's demands by imposing taxes which prevent his passing on higher wages in the form of higher prices." Some distinguished economists such as Sir William Beveridge and J. M. Clark say: "Build up a sense of responsibility among employers and trade unionists. An economy such as ours, which does not automatically keep itself in balance, can be satisfactorily operated only when groups are led by public-spirited and responsible persons."

Neither of the first two proposals is satisfactory, and the third is, I fear, too utopian to be adequately achieved. The problem of the correct credit policy in an economy with powerful trade unions is extremely difficult. One cannot argue that the monetary authorities should create whatever flow of money is required to keep full employment and also to meet whatever wage demands unions may see fit to press. That would confer intolerable freedom on trade unions. At the same time, correcting an inflationary bias in wage-fixing arrangements by deliberately creating unemployment is wasteful. There must be a better answer.

Nor do I think that the Swedes have found the answer. There must be a better way of stiffening the resistance of employers to excessive wage demands than by taxes which are bound to prevent the best use of resources. Clark's analysis of the problem of operating an economy which does not automatically keep itself in balance is admirable.[45] He is surely correct that such an economy requires a broad identification of collective interests with individual interets, so that each individual gets real satisfaction from observing that the community is prospering. The civilized man is one who feels a deep and broad concern for the welfare of larger groups and the struggle to achieve civilization is essentially an effort to make each individual feel an interest in the prosperity of the community. But we cannot wait for the slow progress of the civilization to get better results from the economy. Something quicker is needed.

My belief is that the community must look to employers for help. Certainly, if rising labor costs force a rise in the price level, the community may properly insist that employers do a better job of bargaining. And the community has the means to interest employers in doing a better job of bargaining. The larger employers desire and, indeed, need public approval for their principal policies. They have yielded too readily to the claims of labor partly because they did not wish to be shut down while their rivals did business, but partly also because they have felt that a fight on behalf of the consumer would win them less public approval than would the granting of liberal wage concessions. But if the public decides that it must have stable labor costs because it desires a stable price level, it will reserve its approval for the employers who valiantly oppose excessive wage claims and will withhold its approval from the employer who readily accepts higher labor costs rather than risking the costs of a possible shutdown.

Hence, in the last analysis the answer to the question "Do the Wage-Fixing Arrrangements in the American Labor Market Have an Inflationary Bias?" will be supplied by the public itself. If the public strongly insists that employers hold labor costs stable, employers will probably be able and willing to do so. But if the public is indifferent, employers will find it easier to accept small increases in labor costs rather than to risk shutdowns, and the community will have a slowly rising price level.

37 *Monthly Labor Review*, November 1946, p. 659. "Urban wage rates," it will be recalled, measure changes in basic wage rates resulting from general changes in wage scales and from individual wage-rate adjustments within occupational classifications. They exclude the effects of most changes in the composition of the work force and of shifts in employment bewteen occupations, regions, and industries. They also exclude changes in payments for overtime work, holidays and vacations.

38 *Monthly Labor Review*, September 1946, p. 344.

39 *Journal of Commerce*, (New York) Feb. 20, 1947.

40 Industrial Relations Counselors, *Supplement to Current News*, May 8, 1947. June 3, 1947, and July 7, 1947. Among 156 wage increases between June 23, 1947 and March 31, 1948, compiled by the National Industrial Conference Board (*Management Record*, April, 1948, p. 248), the increases were as follows:

| | Per Cent |
|---|---|
| 5 cents a nhour or less | 28.9 |
| 5.5 cents to 10 cents | 39.1 |
| 10.5 to 15 cents | 26.9 |
| More than 15 cents | 5.1 |

41 In rubber the settlement was for 11 cents, in the electrical products industry for 8%, in aluminum for 10%.

42 National Industrial Conference Board, *Management Record*, April 1948, pp. 254-256; May 1948, pp. 294-296; June 1948, pp. 382-384. Even in June and July most settlements were below the pattern. Of 87 compiled by the N. I. C. B. made between June 15 and July 15, 1948, only 19 were for 13 cents or more and 29 were for less than 10 cents.

43 The real destruction of the wage stabilization policy was accomplished by the United Miners, but the miners were intent on getting more than the steel workers had won, and the miners succeeded.

44 United States Bureau of Labor Statistics, *Current Wage Developments*, May, 1952, June, 1952, July, 1952.

45 See his admirable *Alternative to Serfdom*, especially the last chapter.

## Dempsey-Tegeler Opens New Branches

ST. LOUIS, Mo. — Dempsey-Tegeler & Co., members of leading national Exchanges, has opened a branch office at 119 West Fourth Street, Joplin, Missouri, under the management of Vincent C. Looper, and in the Manhattan Building, Muskogee, Oklahoma, under the direction of Mr. Looper and Berther C. Gossett. Mr. Looper and Mr. Gossett were previously with Friedman, Brokaw & Co.

## With Walston Co.

Walston & Co., member of leading securities exchanges, has announced the appointment of Otto Kaye as a registered representative in their office at 1370 Broadway, New York City.

## With Montgomery, Scott

PHILADELPHIA, Pa. — Montgomery, Scott & Co., 123 South Broad Street, members of leading stock and commodity exchanges, announce that Allan B. Margolis is now associated with them as a registered representative.

## New Reynolds Partner

Reynolds & Co., 120 Broadway, New York City, members of the New York Stock Exchange, on Feb. 1 will admit Samuel S. Hall, Jr. to partnership in the firm.

*Continued from first page*

# The Business Outlook

seems to be a danger of war or crop shortage), speculation will drive prices up. Similarly, a unanimity of opinion that prices are bound to sag will affect commitments, short sales, inventories, and other commodity or security positions such that prices will go down. Business sentiment may help to bring on what the business man anticipated, provided, of course, no one does anything to prevent or delay or soften what he thinks he sees in the offing.

### Well Advertised Recessions Rarely Happen

But a detour or bridge-out sign ahead does not have to mean disaster. Toward the end of World War II farseeing executives in business and government realized that unless everyone put his shoulder to the wheel of an intelligent program there might be millions of unemployed. Over fifteen million people were going to try to find new peacetime jobs within a single year. Never in our previous economic history had more than five and a half million ever been able to do so.

What American business then did constitutes one of the proudest chapters in our history. Under the leadership, especially of the Committee for Economic Development, it mobilized the intelligence of the ablest business executives in every community, large and small. Each local group was determined to put the boys back to work as speedily as possible. Business badgered both political parties to pass helpful legislation—the G. I. Bill of Rights, the Surplus Property Disposal Act, the Employment Act of 1946, Repeal of the Excess Profits Tax, etc. The list is much too long to relate.

As a result, much to the discomfiture of Communist Russia, no significant unemployment occurred. With joyful amazement the economists witnessed a post-war transition as smooth as the hydramatic shift in postwar cars. Their forecast had defeated itself. Frequently economists are given a good-natured ribbing about this. However, if by forecasting a depression, economists could on every occasion feel certain that business, consumers, and government would take the measures necessary to prevent it, that would be a miraculous formula for permanent prosperity. And the cost—the loss of reputation by economists as crystal-ball gazers,—would be ridiculously low, in fact dirt cheap.

Despite the hazards, the economists will continue making projections. They have to. They cannot experiment in a laboratory. Instead of laboratory tests of their hypotheses they have to substitute careful observation of economic history and make tentative projections subject to estimated margins of error under stated assumptions. Many world-renowned scientists in other fields have experienced hundreds of failures in their experiments. So the economist, though he lose face when his projections go sour (and who cares except those with inflated egos?), learns from failures even more than from his successes whether his mistakes are due to errors in observation and measurement, or due to incomplete analysis, to wrong economic theory, or to implicit assumptions which he failed to take into account, or to plain stupidity.

### II

### Men Make Recessions. They Are Not Foreordained

If a recession occurs in 1954, let no one chalk it up to a cosmic decree. Nor to the chorus of bearish forecasts.

A forum of business economists recently brought together by the National Industrial Conference Board arrived at the consensus that the level of gross national product in 1954 would be from 5 to 7% lower. From a level of roughly $365 billion in 1953 our gross national product, it was thought, might go down to $348 or even $340 billion in 1954. The accompanying decline in the Federal Reserve Board index of industrial production would bring it down to the 195-205 range (1937-39=100). In short, business might readjust to the phenomenally prosperous levels of 1952.

Some of the reasons will be examined later. But let me stress here that American business, labor, consumers, and government have the power to counteract such a decline. What happens in 1954 depends on what all of us do, not on what some of us fear.

To be sure, there will be increased competition. Consumers will have a wider range of choice. Profit margins may be smaller, inventories harder to keep down, productive capacity ample and prices lower. In short, business in many lines may find itself operating again more largely under the age-old peacetime conditions of vigorous competition.

But surely getting further away from the abnormalities, easy selling, lush profits and scarcities of a hectic war period is not an obstacle to further advance but rather a challenge to new levels of achievement, given the gumption, ingenuity, hard work, persistence, daring, and enterprise that are traditional in American business. There are ample productive skills, basic human needs here and abroad, know-how, savings, and natural resources to make possible a gross national output of goods and services of $370 billion in 1954 and over $425 billion six years hence. We can make mince meat of all bearish forecasts.

The question still remains, will we? In terms of the likely and the probable, rather than the desirable and the possible, what "guesstimates" seem to square most with a professor's look at the business outlook?

**Frankly and much too briefly put, I am afraid that at some time during 1954 more than 4,000,000 persons under 65 years of age, ready, willing and able to work, will be unemployed—despite further reduction in hours per week and further return to homes and schools of workers who responded to recent abnormal labor demand.** Needless to say, I fervently hope that this projection and others of its bearish nature will all prove erroneous so that a year or two hence they will become merely a source of not unprofitable amusement.

Any such projection is necessarily beset with if's, and's and but's. It is unquestionably hazardous. But I am merely doing what every business man has to do every day. There is scarcely a single business transaction which is not based on some type of guess about the future. Even doing nothing, that is, holding cash, implies a forecast that the value of the dollar will remain stable or increase. However great the folly of forecasting, that of being under the illusion that one is more conservative when making no guesses at all is the greater folly. Explicit informed estimates based on all the known facts vigorously and constantly subjected to criticism and revaluation constitute on the average a much firmer foundation for sound business policy than hunches based on smatterings of observtion and uncriticized assumptions unconsciously held.

The basic assumption underlying this projection is, of course, that there will be no World War III, although there may well be continuing, even if slightly diminishing tension between the free countries and the areas behind the Iron Curtain such that defense expenditures including foreign aid, atomic energy outlays and the like will continue to remain near or over $40 billion. This means armed forces of over 2,500,000 men, appropriate defenses against delivery of the H-bomb, a continuing build-up of deterrent retaliatory power, and military strengthening of NATO countries. It allows also for the continuation of the type of military action on new fronts that has been ended, we hope, in Korea.

### III

### Failure to Carry Through Less than President Eisenhower's Economic Program Definitely Bearish

Another set of assumptions underlying current projections revolves around what the government will do. In my view to do less than the President has urged will make business conditions worse. Specifically, that means such measures as decreasing Federal Reserve margins, supporting the government bond market and lowering reserve ratios; raising the Federal debt limit; liberalizing tax reductions with respect to working children, medical expenses, and working mothers; more flexible allowances for depreciation, research and retained earnings; maintaining agricultural price supports; extending unemployment insurance to 6½ million persons not now covered and social security to an additional 10 million; low-interest long-term housing loans and assistance to slum clearance; throwing public works, highway construction, conservation and reclamation projects into high gear; and Federal assistance to the building of the hundreds of thousands of schools, hospitals and other facilities now so much needed by the unprecedented millions of newly born since the end of World War II.

The Eisenhower economic program represents the very minimum that the government needs to do to offset the reduction of six billion dollars in the share of the national output the Federal government will buy in the coming fiscal year. Details are given in Table I. Even with complete adoption of the economic phases of the President's program, governments on balance will exert a bearish influence, despite the fact that expenditures by State and local governments may rise from current levels of $25 billion to over $26 billion.

### IV

### Cyclical Decline Seems Likely in Private Expenditures

A professor looking at the business outlook is fond of going backward over a period of years to see how the variables behaved. The fluctuations since 1929 in certain vital segments of the civilian economy are shown in Table I below. Several facts stand out.

The first is the enormous inflationary shift in all magnitudes since 1932. The second is the extraordinary percentage increases in such items as corporate tax liability which grew from less than one billion in the early '30s to nearly $25 billion in 1953. Government expenditures have likewise mushroomed from levels around $8 billion 20 years ago to an all-time high of $83.3 billion in 1953.

Particularly striking is the great variability and recent lofty levels of gross private domestic investment. It fell roughly 90% between 1929 and 1932, over 40% between 1937 and 1938, 20% between 1948 and 1949. That at a time when automobiles were so much in demand that new cars were driven around the block to a used car lot and sold at premium prices. **A fall of 20% or roughly $12 billion in 1954 would be the mildest percentage-wise in recent decades. At that the 1954 figure of $43 billion would exceed the previous peak in 1948.**

Is such a fall in investment likely? A shift in inventories is already underway. In 1953 accumulation took place at the rate of $3.8 billion. There was no corresponding increase in retail sales. Backlogs of orders of durables fell at the rate of a billion a month. Extensive sales at reduced prices are being pushed nation wide in household appliances, textiles, television sets, and various makes of automobiles. Nearly $5 billion worth of wheat, corn, cotton and other agricultural surpluses are now in government warehouses. Even the steel mills are operating around but 70% of capacity. The upshot of all these indications of attempts to reduce inventory would seem to be some measure of success, that is, reducing them by $2 billion or some such amount. The total amount of the shift in inventories may be $5.8 billion or enough to account for half of the projected fall in investment.

The story with respect to plant and equipment expenditure is likewise strikingly shown in Table II. It fell about 70% between 1929 and 1932, nearly 30% between 1937 and 1938, about 5% between 1948 and 1949. A fall of 8 to 9% would seem moderate. The stimulus of quickie write-offs is largely spent. Many industries such as steel, rayon, non-ferrous metals, oil and others are tapering off expansion programs. To be sure, rapid technological progress, accelerated obsolescence, relocation of industry nearer to marketing areas, suburbanization, and other forces will bolster plant outlays. But even the lower level of $24 billion projected for 1954 is higher than any figure prior to 1951, six times that in the late '30s and nearly four times that for 1929, more than twice even allowing for price changes.

The other major component of investment—new construction—has been booming since the outbreak of the Korean War due to defense and atomic energy outlays. The largest item, nonfarm residention construction, began to show declines in 1953. And well it might for the rate of housing starts was nearly 50% larger than the rate of new family formation. The reduced birth rates of the mid-'30s will continue to keep down marriages and housing demand for

### TABLE I

### Federal Budget Items in Billions of Dollars

| Item— | Fiscal 1953-54 | Fiscal 1954-55 |
|---|---|---|
| Military expenditures | $41.6 | $37.0 |
| Aid abroad, atomic energy and other defense | 10.3 | 8.5 |
| Nondefense | 20.2 | 20.5 |
| Total assumed outgo | $72.1 | $66.0 |
| Individual income taxes | $32.8 | $28.3 |
| Corporation income taxes | 23.7 | 19.4 |
| Excises, estate and gift taxes | 11.3 | 10.9 |
| Other revenues | 0.9 | 1.1 |
| | $68.7 | $59.7 |
| Federal deficit | $3.4 | $6.3 |

### TABLE II

### Economic Growth, Investment and Corporate Profits After Taxes

### In Billions of Dollars, 1929-1954 *

| Year— | Total Gross National Product | Personal Consumption Expenditures | Gross Private Domestic Investment | New Plant and Equipmt. | Inventories | Corporate Profits After Taxes | Corporate Tax Liability | Income of Farm Proprietors | Total Consumer Credit | Government Purchases of Goods and Services |
|---|---|---|---|---|---|---|---|---|---|---|
| 1929 | $103.8 | $78.8 | $15.8 | $6.4 | $1.6 | $8.4 | $1.4 | $5.7 | $6.2 | $8.5 |
| 1930 | 90.9 | 70.8 | 10.2 | 4.9 | —0.3 | 2.5 | 0.8 | 3.9 | 5.6 | 9.2 |
| 1931 | 75.9 | 61.2 | 5.4 | 3.2 | —1.4 | —1.3 | 0.5 | 2.9 | 4.6 | 9.2 |
| 1932 | 58.3 | 49.2 | 0.9 | 1.8 | —2.6 | —3.4 | 0.4 | 1.7 | 3.5 | 8.1 |
| 1933 | 55.8 | 46.3 | 1.3 | 1.8 | —1.6 | —0.4 | 0.5 | 2.3 | 3.4 | 8.0 |
| 1934 | 64.9 | 51.9 | 2.8 | 2.5 | —1.1 | 1.0 | 0.7 | 2.3 | 3.8 | 9.8 |
| 1935 | 72.2 | 56.2 | 6.1 | 3.4 | 0.9 | 2.3 | 1.0 | 4.9 | 4.8 | 9.9 |
| 1936 | 82.5 | 62.5 | 8.3 | 4.5 | 1.0 | 4.3 | 1.4 | 3.9 | 5.9 | 11.7 |
| 1937 | 90.2 | 67.1 | 11.4 | 5.4 | 2.3 | 4.7 | 1.5 | 5.6 | 6.5 | 11.6 |
| 1938 | 84.7 | 64.5 | 6.3 | 4.0 | —1.0 | 2.3 | 1.0 | 4.4 | 6.1 | 12.8 |
| 1939 | 91.3 | 67.5 | 9.9 | 4.6 | 0.4 | 5.0 | 1.5 | 4.5 | 7.0 | 13.1 |
| 1940 | 101.4 | 72.1 | 13.9 | 6.1 | 2.3 | 6.4 | 2.9 | 4.9 | 8.2 | 13.9 |
| 1941 | 126.4 | 82.3 | 18.3 | 7.7 | 3.9 | 9.4 | 7.8 | 6.9 | 8.8 | 24.7 |
| 1942 | 161.6 | 91.2 | 10.9 | 4.9 | 2.1 | 9.4 | 11.7 | 10.5 | 5.7 | 59.7 |
| 1943 | 194.3 | 102.2 | 5.7 | 4.1 | —0.9 | 10.6 | 14.4 | 11.8 | 4.6 | 88.6 |
| 1944 | 213.7 | 111.6 | 7.7 | 5.7 | —0.8 | 10.8 | 13.5 | 11.8 | 5.0 | 96.5 |
| 1945 | 215.2 | 123.1 | 10.7 | 7.5 | —0.7 | 8.5 | 11.2 | 12.5 | 5.6 | 82.8 |
| 1946 | 211.1 | 146.9 | 28.7 | 12.3 | 6.1 | 13.9 | 9.6 | 14.8 | 8.7 | 30.9 |
| 1947 | 233.3 | 165.6 | 30.2 | 17.1 | —0.8 | 18.5 | 11.9 | 15.6 | 11.9 | 28.6 |
| 1948 | 259.0 | 177.9 | 42.7 | 19.9 | 5.0 | 20.7 | 13.0 | 17.7 | 14.4 | 36.6 |
| 1949 | 258.2 | 180.6 | 33.5 | 18.7 | —2.5 | 16.3 | 10.8 | 12.8 | 16.8 | 43.6 |
| 1950 | 284.2 | 194.3 | 50.3 | 22.0 | 5.5 | 21.2 | 18.4 | 13.3 | 20.1 | 41.9 |
| 1951 | 329.2 | 208.0 | 58.5 | 24.9 | 10.3 | 18.7 | 24.2 | 15.6 | 20.6 | 62.6 |
| 1952 | 348.0 | 218.1 | 52.5 | 25.4 | 3.7 | 18.6 | 20.6 | 14.8 | 25.8 | 77.5 |
| †1953 | 367.0 | 230.2 | 55.2 | 26.5 | 3.8 | 20.6 | 24.8 | 12.5 | 28.2 | 83.3 |
| †1954 | 344.0 | 222.0 | 43.0 | 24.0 | —2.0 | --- | --- | --- | --- | 79.0 |

*Source of data other than estimates: *Historical and Descriptive Supplement to Economic Indicators*, Joint Committee on the Economic Report, December 1953, Washington, D. C. †Estimated.

three or four years. Even in California recent surveys of building intentions show a decline of 10% or more. In Los Angeles County a decrease of 13,000 units or 15% is indicated from the 83,000 units in 1953. An overall decline of 10% in 1954 might prove to be a serious underestimate, particularly in view of the well-known current lethargy in real estate marketing activity.

There remains for discussion the largest segment in gross national output—personal consumption expenditures. The effect of fear of lay-offs was well demonstrated in Washington, D. C. in 1953. Retail sales declined while bank deposits rose. The elimination of overtime pay and reduction in hours from an average of 40.5 in 1953 to 39 will reduce take home pay more than 3%. Such a decline in labor income currently running at some $200 billion annually would in itself represent a decline of $6 billion. Add to that the decline in income suffered by the 2,500,000 unemployed at the beginning of 1954 (despite unemployment compensation), and the reduction in incomes of the 1,500,000 who dropped out of the labor force even if a large fraction were entered on old age pension rolls. Consider furthermore the probable drop in the incomes of farmers and in the profits of unincorporated entrepreneurs. And finally make allowances for displacement of workers due to increases in productivity of 2% or more a year.

The projected decline of only $8 billion or 3½% in consumer spendings may well prove far too small. Note in Table II that the decline from 1929 to 1933 was roughly 40%, and in '37-38, 4%. If consumers start doing things for themselves around the house, farm, and garden; if they but refuse to increase further the record burden of consumer credit which rose $2.4 billion or nearly 10% in 1953 and $4.8 billion or 20% in 1952; if they hang on to their cars and postpone for a while the purchase of other postponable expenditures—these and other factors may readily bring a decline in consumer expenditures of far more than $8 billion.

Only a minority seem likely to experience increases in income. Some unions may negotiate mild increases in pay. Those in the middle and upper income brackets will enjoy a reduction in taxes, which in large part will go into increased savings. More than half of the income recipients will not experience a net increase, the jump in payroll deductions to 2% offsetting the tax cut on their incomes. Unless exemptions are raised or substantial cuts made in excise taxes (and neither is even contemplated now) the average income recipient will receive no offset worthy of note to the cuts in take-home pay already under way. He is therefore almost compelled to reduce his consumption expenditures. He cannot take much out of savings since on balance the 60% in the lower income brackets save nothing and possess less than $200 on the average in liquid assets.

The total gross national product in 1954 may well prove to be in the general neighborhood of $344 billion in 1953 dollars (government $79 B. + investment $43 B. + consumption outlays $222 B.). How many workers working 39 hours a week, 50 weeks a year at a rate 2% more efficient productivity-wise would be required? In 1953 an employed civilian labor force of about 62,000,000 on the average, produced $367 billion of gross national output, or $5,920 each. Since their work week averaged 40.5 hours in length, the product per man hour was roughly $2.90. Assume no change in prices in 1954. Then with a 2% increase in productivity (the very minimum since only the best workers are kept, and fear of loss of job may induce greater effort) each would contribute $2.96 per man hour to gross national product. To produce $344 billion of gross national product would require about 59,600,000 employed civilian labor force. In November, 1953, a total of 63,353,000 were reported in the civilian labor force. Add to that the new crop of workers and those who may be demobilized as the armed forces are cut back—a total that could readily equal 900,000 or a million persons: The figure of unemployed becomes roughly 4½ million.

### V

### A Catastrophic Depression Cannot Occur

Will there be a spiraling depression of the 1932 variety, such as is being predicted by various prophets of gloom and doom, including the famous British economist, Colin Clark? The answer, it seems to me, is definitely—No.

There are a number of healthy props under the economy that did not exist in 1929: Bank deposit insurance makes extensive bank failures unlikely. Insured mortgages with wise amortization provisions remove the danger of wholesale foreclosure on homes and farms. Unemployment insurance, social security payments, veteran's assistance, and farm price supports are structurally-built-in flexibility measures providing increased purchasing power as employment and prices drop. The corporate and individual income tax structure drastically lowers the tax bite as income and profits fall, thus cushioning the decline in net take-home pay. The Securities and Exchange Commission, the Federal Reserve Board, and the Department of Agriculture have powers to regularize wild fluctuations and cushion distress liquidation in the security and commodity markets. Minimum wage laws and strongly organized unions limit spiralling wage-price cuts. Liquid savings are at an all-time high.

In addition there are a number of other long run sustaining forces undergirding the American economy. There are first of all, our vital institutions of freedom offering every citizen opportunity and incentive to make the maximum use of his constructive talents and energies. New ideas, new methods, new processes, new products, new industries create a dynamism and growth that soon overtake whatever slack in resources of labor or capital occasionally become available for utilization. In testimony before the Temporary National Economic Committee in the capacity of economic advisor, I continuously emphasized in the late '30s the ebullient phrase "America Unlimited" to try to describe the remarkable resiliency of our dynamic democracy and uniquely revolutionary economy. The postwar rapid pace of technological advance including industrial applications of atomic energy, electronics, plastics, petrochemicals, antibiotics and others too numerous to mention make even that phrase sound like trite understatement.

Moreover all of us have learned a good deal more about managing our affairs. Business management has made frankly spectacular progress. Business policies today increasingly look beyond the confines of the plant and carefully weigh the impact of business buying and selling or hiring and firing not only upon their industry but upon labor, consumers, and the nation. The buying and selling of Wall Street likewise benefits from the professionalized activities of investment trust operators. And a good deal less ignorance prevails in the techniques of managing our governmental affairs, national, State, and local. The best administrative know-how of industry has been poured into posts of managerial responsibility in government. No depression today will be allowed to get out of hand.

Finally—and this makes a professor most bullish of all so far as the future is concerned—there has been rapid and continuing improvement in the health, skills, and intelligence of the human stuff for whom both business and government exist and by whom they will be judged, used, cast aside, improved, expanded, and preserved. The magnificent young generation that fought and won World War II has proved itself equally versatile on the farm, professional, engineering, and industrial front.

A colleague of mine, Dr. Joseph S. Davis, writing in "The Journal of Political Economy" on "The Population Upsurge and the American Economy 1945-80" has emphasized the importance of the quantitative and qualitative growth of our population in the following terms. Says he:

"Among the fundamental factors which jointly account for our enormous gains in productivity and unprecedented gains in levels of consumption and living, universal education looms large. Our most valuable resource is our people. Probably our most 'productive' investment is in their education and development. Recently we have skimped on this investment. While our standards of education, like our other standards, keep rising, our level of education has fallen in quality, first because of the war and second because of the postwar upsurge in births inadequately prepared for. We face the task of enormously increasing our investment in schools and in teacher-training and further increasing the rewards of teachers to attract more into, and hold more in, this profession."

Looking beyond next year to 1960 or 1975, the professor tends to sound over optimistic. The economist, Philip Wernette, writing in the "Michigan Business Review" gives his article the title "Futures Unlimited." If adequate investment, both public and private, is made in our human resources, the phenomenal American explosion (as the scientist Turck calls it in the "Journal of the American Association for the Advancement of Science") in productivity and real income which took place during the last two decades can be further advanced. Mr. William S. Paley, Chairman of the Board of the Columbia Broadcasting System, headed a commission to assess what might be achieved by joint intelligent action of business, labor, farmers, and the government by 1975. Their results seem startling but less so than the facts of 1953 compared with 1938. Jobs will exceed 79 million. Rates of pay for a work week of 30 to 34 hours will implement the buying of 40% more appliances and consumer hard goods per capita. Passenger cars will exceed 65 million. We shall need 50% more machinery and capital equipment and spend 50% more per capita on public works. Electric power plants will turn out more than 3½ times as much electricity as today. The market will need 43% more copper, 53% more lead, 39% more zinc, and 100,000 new railroad cars a year. From 1.3 to 1.6 million new houses and apartments will be needed.

These are not pipe dreams. These are achievable goals and targets according to the appraisal of some of the best brains in American business today. To look at the business outlook only in terms of 1954 is myopic, necessary as it may be to be sure of what is near at hand lest one stumble. The perspective should be widened at least 20 years back and 15 years forward. The outlook then becomes distinctly bullish.

# Public Utility Securities

By OWEN ELY

## Peoples Gas Light & Coke Co.

Peoples Gas, with annual revenues of $129 million, is one of the largest integrated gas systems. It serves mixed gas (900 btu.) to the City of Chicago. It controls, through 100% common stock ownership, Natural Gas Pipeline Co. of America and Chicago District Pipeline Co., which operate a dual natural gas transmission system extending from the Texas-Oklahoma fields to Chicago. These companies serve 18 customer companies in six middle western states with a population of some 3,300,000. Natural Gas Pipeline produces about half of its gas requirements from reserves in the Panhandle field.

Texas-Illinois Natural Gas Pipeline, whose common stock is 70.6% owned by Peoples Gas, operates a line from the Texas Gulf Coast to a point near Chicago. The entire transmission system has a daily capacity of about 900 million cf. Another subsidiary, the Natural Gas Storage Co., is developing a huge underground storage project for the system near Herscher, Ill.

Peoples Gas is encountering the same rate difficulties which have involved other large integrated natural gas systems. Beginning last April Natural Gas Pipeline began collecting under bond a rate increase of $3.5 million, of which $1.5 million was applicable to its parent, Peoples Gas. This increase was finally approved by the FPC about Dec. 15. Natural Gas Pipeline Co. has been affected by higher field costs in Oklahoma, by higher rates requested by Colorado Interstate Gas, and by proration orders of the Texas Railroad Commission which have reduced the volume of gas which can be produced from the company's own wells and thus require additional purchases of high-cost gas. Also, the additional gas required by Texas-Illinois Natural Gas Pipeline for its expansion program (now about completed) will cost about 50% more than if purchased under the old contracts.

Peoples Gas has now itself requested approval by the Illinois Commerce Commission of a $5 million rate increase, in order to offset the higher rates sought from the FPC by the two pipeline subsidiaries. The $5 million is designed to offset the $4 million increased cost of gas from Natural Gas Pipeline, and a $1 million increase by Texas-Illinois Natural Gas Pipeline (all effective under bond in January). Peoples Gas has asked that its new rates be permitted to go into effect Feb. 3. Chairman James F. Oates of Peoples Gas states:

"It is the moving up of effective dates in a series of rate proceedings at the Federal regulatory level, each having the effect of passing on inescapable mounting costs, that has caused Peoples Gas to change its time schedule. Insofar as Peoples Gas is concerned, its filing for increased rates is a move made necessary to offset increasing costs for gas it purchases, and does not involve an increase in rate of return, fair value of its property, or other basic matters which were determined by the Illinois Commerce Commission in its rate decision of last May."

System capitalization is approximately as follows:

| | | |
|---|---|---|
| Long-term Debt | $240.000.000 | 62% |
| Subsidiary Preferred | 12,000,000 | 3 |
| Minority Interest | 13,000,000 | 3 |
| Common Stock Equity | *123,000,000 | 32 |
| | $388,000,000 | 100% |

*As of Dec. 31, 1952.

Peoples Gas common stock record is shown in the accompany-table. The company has followed a conservative dividend policy. the stock is one of the highest-priced of the gas stocks, with no present indication of any stock split-up, apparently for technical reasons. It has recently been selling around 136½ (1953-54 range was 148½-127), and based on the $6 dividend the yield is 4.4%. With earnings of $9.44 for the 12 months ended Sept. 30, the price-earnings ratio is 14.4%.

| Year— | Revenues (Millions) | —Common Stock Record— Earned | Dividends | Approximate Range |
|---|---|---|---|---|
| 1953 | *$130 | *$10.00 | $6.00 | 148½- 127 |
| 1952 | 103 | 8.26 | 6.00 | 145 - 124 |
| 1951 | 73 | 9.16 | 6.00 | 130 - 111 |
| 1950 | 67 | 10.02 | 6.00 | 139 - 107 |
| 1949 | 62 | 10.23 | 6.00 | 137 - 96½ |
| 1948 | 53 | 9.32 | 5.63 | 99 - 86 |
| 1947 | 46 | 10.35 | 5.38 | 101½- 81 |
| 1943 | 44 | 10.06 | 5.00 | 115 - 86 |
| 1945 | 44 | 5.47 | 4.00 | 97 - 69 |
| 1944 | 43 | 4.67 | 4.00 | 70 - 55 |

*Estimated.

## With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, Mo. — Clarence E. Hasselbach is now with Waddell & Reed, Inc., 7 North Brentwood Boulevard, Clayton, Mo. He was formerly with A. A. Tibbe & Co.

## A. G. Edwards Adds

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, Mo. — Rutgers G. Van Brunt has been added to the staff of A. G. Edwards & Sons, 409 North Eighth Street, members of the New York and Midwest Stock Exchanges.

## With MacNaughton-Greenawalt

(Special to THE FINANCIAL CHRONICLE)

GRAND RAPIDS, Mich.—Henry S. Greenawalt, Jr. has joined the staff of MacNaughton-Greenawalt & Co., Michigan Trust Building.

## With Stix & Co.

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, Mo. — Alfred C. Waldemer is now with Stix & Co., 509 Olive Street, members of the Midwest Stock Exchange.

### Hallowell Director

Henry R. Hallowell, investment banker, and member of the firm of Hallowell, Sulzberger & Co., Philadelphia, Pa., was elected a director today of Fischer & Porter Company, Hatboro, Pa., manufacturers of industrial instruments. For the past two years Hallowell, Sulzberger & Co., has acted as financial advisor to Fischer & Porter Company.



# Mutual Funds

By ROBERT R. RICH

**DOLLAR VOLUME** of 1953 sales of Dividend Shares, Inc., the largest of the mutual funds under Calvin Bullock management, were the highest for any of the 21 years in the company's history except for 1937, according to Robert E. Clark, Vice-President in charge of sales for the Bullock organization.

An increasing percentage of annual sales is being derived from purchases made on a monthly or regular basis under the Dividend Thrift Plan, administered by the Irving Trust Co., New York.

"The tendency toward conservatism in periods of market uncertainty is reflected in these sales figures," according to Mr. Clark. "The ability to diversify broadly among more than 100 dividend-paying common stocks of good quality and the reliance on professional management tends to increase the demand for mutual funds with conservative records and is expected to be even more apparent in sales figures on Dividend Shares in 1954.

**COMMONWEALTH** Investment Company today reported a 10% increase in total net assets during 1953. The Dec. 31 total of $66,290,228 compares with $60,248,568 a year ago. The number of outstanding shares increased to 9,995,160 during the year and since then has passed the 10,000,000 mark. The number of Commonwealth shareholders now exceeds 40,000.

The company's sales during the year were $14,883,704 in which over 1,000 authorized investment dealer offices throughout the country participated.

Consistent with the company's policy of broad investment diversification, its portfolio at the year-end consisted of 337 individual securities in 25 major industries as follows: common stocks, 61.9%; preferred stocks, 20.3%; bonds, 13.3%; and cash and receivables, 4.5%. The largest industry holdings were public utilities-electric, 12.1%; oils, 11.2%; and chemicals-drugs, 5.9%.

Commonwealth, during its 21st year of operation, made four distributions to stockholders. A total of 28 cents per share was paid from investment income and 12 cents per share was paid from capital gains.

**INVESTORS** continued to favor bonds and investment-type preferred and income common stocks over speculative stocks in 1953. This conclusion is based upon the experiences of the Keystone Custodian Funds which offer investors a free choice of four bond, two preferred and four common stock funds, each representative of a particular segment of the securities market.

The bond funds accounted for 58% of new sales in 1953, preferred stock funds for approximately 20%, and common stock funds for the remaining 22%. Preferred and common stock funds primarily suitable for capital growth rather than income accounted for only 10% of 1953 sales. Keystone investors thus indicated a clear-cut 3-to-1 preference for income-type stocks when investing in equities.

A similar break-down of the more than $220,000,000 invested as of Dec. 31, 1953 in the 10 Keystone Funds combined shows 56% in bonds, 19% in preferred stocks and 25% in common stocks. Again, only 9% is invested in stocks selected primarily for capital appreciation. These figures generally confirm the 1953 sales pattern, with the latter indicating a slightly increased preference for bonds as against preferred and common stocks.

Payments in 1953 to Keystone shareholders amounted to more than $10,000,000 from net investment income and more than $8,000,000 from realized gains. In its 21 years of operation, Keystone has made total payments from these two sources of more than $97,000,000 and $54,000,000 respectively.

**DESPITE** generally declining security markets, record high sales of $47.1 million during 1953 were reported by National Securities Series in a release today by E. Waln Hare, Vice-President. This represents a sales increment of $8.5 million, or 22% better than the previous record year of 1952.

## Eaton & Howard Over $100,000,000

Eaton & Howard Balanced Fund passed the $100 million mark and at the year-end had assets of $101,963,256 compared with $94,486,854 at the beginning of the year. The year-end investment balance between different types of securities owned was: 7.8% in cash, U. S. Governments and short-term notes, 17.3% corporate bonds, 14.7% preferred stocks, and 60.2% common stocks.

Eaton & Howard Stock Fund assets at the year-end totaled $20,861,370 compared with $17,015,223 at the beginning of the year. The Fund was 94% invested in common stocks at the year-end.

Eaton & Howard mutual funds had combined assets of over $122,000,000 on Dec. 31, 1953, a new high in the history of the Funds.

## Bullock Cautious; Increases Cash

During the past six months, the management of Bullock Fund has followed a policy of constructive caution, the Fund's report states. The reserve of cash and U. S. Government bonds was increased from 9.6% of net assets on May 31, 1953 to 13.6% at the fiscal year-end, and portfolio changes undertaken for the purpose of strengthening the investment caliber of common stock investments. Principal changes consisted of a reduction in common stock holdings in the railroad, retail trade, steel, textile and utility groups, and an increase in holdings of the oils and chemicals.

"It is clear that the period of shortages is over," the text states, "and that we face the intensively competitive conditions of a buyer's market. However, there are good reasons for expecting the readjustments now in progress to be of a relatively mild and orderly character."

Total net assets of Bullock Fund totaled $14,876,997 on Nov. 30, 1953, the company's fiscal year-end. This compares with $14,699,797 12 months earlier. Assets per share amounted to $23.00, compared with $24.30 on Nov. 30, 1952.

The number of shareowners increased to a record high of 76.3 thousand, a gain of 30%, while outstanding shares increased 35% to a new high of 27.9 million.

**RECORD 1953** sales of Wellington Fund shares were reported today by A. J. Wilkins, Vice-President.

Gross sales for the year, he said, amounted to $53,740,800 and were the largest in the Fund's 25-year history. They represented an increase of $2,753,100 over the gross sales of $50,987,700 in 1952, the best previous year.

The Wellington executive added that the expansion in sales volume was accompanied by an unusually low rate in redemption of shares. For the year, redemptions amounted to only 3.48% of total assets. Monthly liquidations on the average ran only 17.55% of sales or well below the rate of the industry as a whole.

During 1953, the Fund added shareholders at the rate of approximately 1,800 a month to bring the total at the year-end to an all-time high of 117,000 as compared with 96,000 at the close of 1952. Average investment in the Fund at the end of the year amounted to $2,400 per shareholder. The number of shares of Wellington Fund outstanding in the hands of the public on Dec. 31, 1953 reached an all-time high of 14,064,296 for an increase of 2,269,597 shares over the 11,794,699 shares outstanding at the close of 1952.

Mr. Wilkins attributed the 1953 record sales volume to several factors. "First," he said, "there was a definite trend last year on the part of the general public away from speculative activity and towards more conservative investments. With this trend," he pointed out, "we found more security dealers selling Wellington Fund as an integral part of their business than ever before. In addition," he continued, "the institutional market for mutual fund shares broadened substantially and as a result we noted more purchases of Wellington Fund by fiduciaries, institutions and retirement funds."

**COMPARISON** of the total net assets of three mutual funds managed and distributed by Investors Diversified Services, Inc., and of the company's subsidiary, Investors Syndicate of America, Inc., during the 11-month period ending Nov. 30, 1953, shows a marked increase over the complete year-end figures of 1952, it was reported by Robert W. Purcell, I.D.S. Chairman.

As of Dec. 1, the combined total net assets of the funds—Investors Mutual, Inc., Investors Stock Fund, Inc., and Investors Selective Fund, Inc.—were $576,768,102, compared with $494,904,147 on Dec. 31, 1952, showing an increase of $81,863,955 or 16.54%.

Total number of shares outstanding for the three funds was 40,553,811 as of Nov. 30, indicating an increase of 6,978,500 or 20.78%, over last year's closing figure of 33,575,311.

During the first 11 months of this year, the three funds added 27,300 new shareholders, making a total of 187,600 as of Nov. 30. This represents a 17.03% increase over 1952. Dividends from investment income for the three funds totaled $23,031,008 in the 11-month period compared with $17,991,877, during the like period in 1952. Capital gain distributions amounted to $6,176,673 versus $6,835,863 in 1952.

Investors Syndicate of America, Inc., wholly-owned I. D. S. subsidiary which issues face-amount investment certificates, had as of Nov. 30, total net assets of $267,106,751, an increase of more than $41,000,000 over the entire year 1952.

The number of accounts outstanding on Nov. 30 was 237,827, an increase of 27,539 over last year. Face-amount certificates outstanding as of the same date totaled $1,248,967,000, in maturity value, an 11-month increase of $171,133,000 over the full year 1952. Sales of certificates for the first 11 months of 1953 totaled $239,295,000, an increase of $22,916,000 over the same period in 1952.

**RECOGNIZING THAT** millions of potential investors cannot be reached through customary financial information and advertising channels — a new, colorful, educational device has been developed to attract sidewalk prospects like shoppers, theatre-goers, workers to and from their office and factory jobs—even the cop on

### William T. Cobb

William T. Cobb, well-known as a mutual fund executive and writer on financial affairs, died at the age of 49 on Saturday at his residence in the Hotel Margaret in Brooklyn, N. Y. Funeral services took place Wednesday at the Unitarian Church in New York City.

Mr. Cobb was last an associate of the Duff-Kelly Organization, a stockholder and corporate public relations firm in New York, a company he joined after leaving Investors Diversified Services, where he was Publications Director.

From 1936 to 1940, Mr. Cobb was an editorial writer for "The Wall Street Journal." In 1940, he became Vice-President of Albert Frank-Guenther Law, a New York advertising agency. In 1946, Mr. Cobb joined Distributors Group as a Vice-President.

the beat — it was revealed by Arthur Wiesenberger, senior partner of the New York Stock Exchange firm of Arthur Wiesenberger & Co.

The device — known as the "Wiesenberger Projectograph" — is an automatic, window display combining color and motion in a series of animated slides about mutual funds. It is now being tested for impact and effectiveness by a number of investment firms in street - level locations throughout the country.

It was pointed out that the "Projectograph" could also be used for group sales presentations, at county fairs, in reception rooms and for sales training. Present plans call for its exclusive use by the more than 550 investment firms now participating in the Wiesenberger nation-wide dealer service. It will, however, be made available—at a later date—to all security firms dealing in mutual funds.

The "Projectograph" was more than one year in development, and conforms to SEC requirements.

### PERSONAL PROGRESS

MASSACHUSETTS Investors Growth Stock Fund announces the election of Dwight P. Robinson, Jr. as Chairman of the Fund's Board of Directors and as a member of its executive committee. Mr. Robinson has been a director since 1936.

At the same time John L. Cooper was elected a director and member of the investment management committee.

Merrill Griswold, formerly Chairman of Directors, becomes Chairman of the Fund's advisory board.

PUTNAM FUND Distributors, Inc., general distributing organization for The George Putnam Fund of Boston, announces the election of Richard A. Buck as Executive Vice-President.

A native of Hartford, Conn., and a graduate of Yale University in 1932, Mr. Buck spent 10 years with The Travelers Insurance Co. as a life insurance salesman and later in the sales management field, specializing in recruiting and training of salesmen and supervision of branch offices in these duties. Following service in World War II, he became Assistant Vice-President of the Pepsi-Cola Co., concerned with distributor relations. In 1949 he moved to Boston to become associated with New Enterprises and more recently has been active in the mutual fund field.

### CLOSED-END NEWS

**Lehman Corp.**

Net asset value of The Lehman Corporation on Dec. 31, 1953 was $142,775,029, equivalent to $34.38 per share on the 4,153,124 shares of capital stock outstanding, it was reported by Robert Lehman, President, in the interim report to stockholders. Net asset value per share on June 30, 1953, the end of the corporation's fiscal year, after adjustment for the 2-for-1 split in the number of shares effective Oct. 28, 1953, was $32.80.

New additions to the portfolio during the quarter were $3,500,000 American Telephone & Telegraph Co. 3¾s due 1965; 20,000 shares Bristol-Myers Co.; 25,000 shares Pepsi-Cola Co.; 20,000 shares American Broadcasting-Paramount Theatres; and 5,000 shares American Smelting and Refining Co.

Sold were 20,000 shares R. J. Reynolds Tobacco Co. "B," leaving a balance of 5,000 shares in the portfolio; 5,000 shares Corning Glass Works, leaving 10,000 shares; 6,400 shares Food Machinery and Chemical Corp., leaving 40,000 shares; and 4,300 shares of Continental Oil Co., leaving 17,300 shares.

*Continued from page 15*

# Eisenhower Outlines Program in State of the Union Message

tax measures to stimulate consumer and business spending; suitable lending, guaranteeing, insuring and grant-in-aid activities; strengthened old age and unemployment insurance measures; improved agricultural programs; public works plans laid well in advance; enlarged opportunities for international trade and investment.

This mere enumeration of these subjects implies the vast amount of study, coordination and planning, to say nothing of authorizing legislation, that altogether make our economic preparedness complete.

If new conditions arise that require additional administrative or legislative action, the administration will still be ready. A government always ready, as this is, to take well-timed and vigorous action, and a business community willing, as ours is, to plan boldly and with confidence, can between them develop a climate assuring steady economic growth.

**Forthcoming Budget**

I shall submit to the Congress on Jan. 21 the first budget prepared by this administration, for the period July 1, 1954 through June 1955.

This budget is adequate to the current needs of the government. It recognizes that a federal budget should be a stabilizing factor in the economy. Its tax and expenditure programs will foster individual initiative and economic growth.

Pending the transmittal of my budget message, I shall mention here only a few points about our budgetary situation.

First, one of our initial acts was to revise, with the cooperation of the Congress, the budget prepared before this administration took office. Requests for new appropriations were greatly reduced. In addition, the spending level provided in that budget for the current fiscal year has been reduced by about $7,000,000,000. In the next fiscal year we estimate a further reduction in expenditures of more than $5,000,000,000. This will reduce the spending level over the two fiscal years by more than $12,000,000,000. We are also reducing further our requests for new appropriations.

Second, despite the substantial loss of revenue in the coming fiscal year, resulting from tax reductions now in effect and tax adjustments which I shall propose, our reduced spending will move the budget closer to a balance.

Third, by keeping new appropriation requests below estimated revenues, we continue to reduce the tremendous accumulation of unfinanced obligations incurred by the government under past appropriations.

Fourth, until those claims on our government's revenues are further reduced, the growth in the public debt cannot be entirely stopped. Because of this—because the government's bills have to be paid every month, while the tax money to pay them comes in with great unevenness within the fiscal year—and because of the need for flexibility to manage this enormous debt, I find it necessary to renew my request for an increase in the statutory debt limit.

* * *

**Tax Revision Necessary**

While we are moving toward lower levels of taxation we must thoroughly revise our whole tax system. The groundwork for this revision has already been laid by the Committee on Ways and Means, of the House of Representatives, in close consultation with the Department of the Treasury. We should now remove the more glaring tax inequities, particularly on small taxpayers, reduce restraints on the growth of small business; and make other changes that will encourage initiative, enterprise and production. Twenty-five recommendations toward these ends will be contained in my budget message.

Without attempting to summarize these manifold reforms, I can here illustrate their tendency. For example, we propose more liberal tax treatment for dependent children who work, for widows or widowers with dependent children and for medical expenses. For the business that wants to expand or modernize its plant, we propose liberalized tax treatment of depreciation, research and development expenses, and retained earnings.

Because of the present need for revenue the corporation income tax should be kept at the current rate of 52% for another year, and the excise taxes scheduled to be reduced on April 1, including those on liquor, tobacco, gasoline and automobiles, should be continued at present rates

Immediate extension of the Renegotiation Act of 1951 is also needed to eliminate excessive profits and to prevent waste of public funds in the purchase of defense materials.

* * *

**Natural Resources**

Part of our nation's precious heritage is its natural resources. It is the common responsibility of Federal, State and local Governments to improve and develop them, always working in the closest harmony and partnership.

All Federal conservation and resource development projects are being reappraised. Sound projects now under way will be continued. New projects in which the Federal Government has a part must be economically sound, with local sharing of cost wherever appropriate and feasible. In the next fiscal year work will be started on 23 projects that meet these standards. The Federal Government will continue to construct and operate economically sound flood control, power, irrigation and water supply projects wherever these projects are beyond the capacity of local initiative, public or private, and consistent with the needs of the whole nation.

Our conservation program will also take into account the important role played by farmers in protecting our soil resources. I recommend enactment of legislation to strengthen agricultural conservation and upstream flood prevention work, and to achieve a better balance with major flood control structures in the downstream areas.

Recommendations will be made from time to time for the adoption of:

A uniform and consistent water resources policy;

A revised public lands policy; and

A sound program for safeguarding the domestic production of critical and strategic metals and minerals.

In addition, we shall continue to protect and improve our national forests, parks, monuments and other natural and historic sites, as well as our fishery and wildlife resources. I hope that pending legislation to improve the conservation and management of publicly-owned grazing lands in national forests will soon be approved by Congress.

**Highway Aid**

To protect the vital interest of every citizen in a safe and adequate highway system, the Federal Government is continuing its central role in the Federal aid highway program. So that maximum progress can be made to overcome present inadequacies in the interstate highway system, we must continue the Federal gasoline tax at 2 cents per gallon. This will require cancellation of the ½-cent decrease which otherwise will become effective April 1, and will maintain revenues so that an expanded highway program can be undertaken.

When the Commission on Intergovernmental Relations completes its study of the present system of financing highway construction, I shall promptly submit it for consideration by the Congress and the Governors of the States.

It is apparent that the substantial savings already made, and to be made, by the Post Office Department cannot eliminate the postal deficit. I recommend, therefore, that the Congress approve the bill now pending in the House of Representatives providing for the adjustment of certain postal rates. To handle the long-term aspects of this, I also recommend that the Congress create a permanent commission to establish fair and reasonable postal rates from time to time in the future.

* * *

**Extend Social Security**

Our basic Social Security program, the old-age and survivors insurance system, to which individuals contribute during their productive years and receive benefits based on previous earnings, is designed to shield them from destitution. Last year I recommended extension of the social insurance system to include more than 10,000,000 additional persons. I ask that this extension soon be accomplished. This and other major improvements in the insurance system will bring substantial benefit increases and broaden the membership of the insurance system, thus diminishing the need for federal grants-in-aid for such purposes. A new formula will therefore be proposed, permitting progressive reduction in such grants as the need for them declines.

Federal grant-in-aid welfare programs, now based on widely varying formulas, should be simplified. Concrete proposals on 14 of them will be suggested to the approprate committees.

The program for rehabilitation of the disabled especially needs strengthening. Through special vocational training, this program presently returns each year some 60,000 handicapped individuals to productive work. Far more disabled people can be saved each year from illness and dependence if this program is gradually increased. My more-detailed recommendations on this and the other social insurance problems I have mentioned will be sent to the Congress on Jan. 14.

* * *

**Against Socialized Medicine**

I am flatly opposed to the socialization of medicine. The great need for hospital and medical services can best be met by the initiative of private plans. But it is unfortunately a fact that medical costs are rising and already impose severe hardships on many families. The federal government can do many helpful things and still carefully avoid the socialization of medicine.

The federal government should encourage medical research in its battle with such mortal diseases as cancer and heart ailments, and should continue to help the states in their health and rehabilitation programs. The present Hospital Survey and Construction Act should be broadened in order to assist in the development of adequate facilities for the chronically ill, and to encourage the construction of diagnostic centers, rehabilitation facilities and nursing homes. The war on disease also needs a better working relationship between government and private initiative. Private and non-profit hospital and medical insurance plans are already in the field, soundly based on the experience and initiative of the people in their various communities. A limited government reinsurance service would permit the private and non-profit insurance companies to offer broader protection to more of the many families which want and should have it. On Jan. 18, I shall forward to the Congress a special message presenting this administration's health program in its detail.

* * *

**Housing Message Due**

The details of a program to enlarge and improve the opportunities for our people to acquire good homes will be presented to the Congress by special message on Jan. 25.

This program will include:

Modernization of the home mortgage insurance program of the federal government;

Redirection of the present system of loans and grants-in-aid to cities for slum clearance and redevelopment;

Extension of the advantages of insured lending to private credit engaged in this task of rehabilitating obsolete neighborhoods;

Insurance of long-term mortgage loans with small down payment for low-income families;

And, until alternative programs prove more effective, continuation of the public housing program adopted in the Housing Act of 1949.

If the individual, the community, the state and Federal governments will alike apply themselves, every American family can have a decent home.

* * *

**Statehood for Hawaii**

The people of Hawaii are ready for statehood. I renew my request for this legislation in order that Hawaii may elect its state officials and its representatives in Washington along with the rest of the country this fall.

For years our citizens between the ages of 18 and 21 have, in time of peril, been summoned to fight for America. They should participate in the political process that produces this fateful summons. I urge Congress to propose to the states a Constitutional amendment permitting citizens to vote when they reach the age of 18.

## Joins Caunter Staff

(Special to The Financial Chronicle)

CLEVELAND, Ohio—Howard I. Brown is with L. A. Caunter & Co., Park Building.

## With H. L. Emerson

(Special to The Financial Chronicle)

CLEVELAND, Ohio — John N. Darrow, Jr. is now with H. L. Emerson & Co., Incorporated, Union Commerce Building, members of the Midwest Stock Exchange.

## Boren & Co. Formed

BEVERLY HILLS, Calif.—Irving N. Boren has formed Boren & Co. with offices at 9235 Beverly Boulevard, to engage in a securities business. He was formerly with First California Company.

## Conrad, Bruce Resuming

SAN FRANCISCO, Calif.—Conrad, Bruce & Co. is resuming its activity in the investment business from offices at 235 Montgomery Street. The principals were formerly with J. R. Williston, Bruce & Co. in San Francisco and prior thereto with Conrad, Bruce & Co.

*Continued from first page*

# As We See It

same time he apparently does not regard their costliness as something in their favor. On the contrary he seems to be determined to reduce their cost so far as it may reasonably be done. He appears to have arrived at the conclusion that these programs are desirable—politically or otherwise—despite rather than because of their drain upon the pocketbook of the nation or the stimulation they may well give to the general course of inflation.

### More Defense for Less Money

The course of the President's remarks strongly suggest, moreover, a rejection of the fallacy that the degree of our preparedness to defend ourselves may be simply measured by the number of billions of dollars we spend for the purpose. Not only have so-called defense outlays heretofore been regarded as politically untouchable, but there has been a disposition on the part of a good many in public life to make a virtue of seeing how large these amounts could be made. Revelation of incredible waste and extravagance, to use no stronger language, in defense operations has often appeared to weaken this foolish notion not a whit. The gentleman who now occupies the White House enjoys a military prestige second to none in the world, and we for our part are heartened by the fact that he has the good sense to measure the effectiveness of our defense preparations by other standards and the courage to suggest sharp reductions in defense outlays where he believes it possible to get more defense for less money.

It remains to be seen what specific measures the President will suggest as anti-depression steps. These when they are fully revealed may or may not be found to be worthy of support, partial or otherwise. It is clear, however, that the Chief Executive has taken pains to gather about him some of the ablest of the nation's students of the so-called business cycle. What these gentlemen have been planning we have no sure way of knowing, but it would appear that they have been at pains to determine whether or not current developments suggest the need for any drastic action on the part of government. This seems to us to be a great advance over the purely political and sadly amateurish procedures of previous administrations.

It appears reasonably safe to say also that the Eisenhower Administration has shown a realization of the horrible hodge-podge that is our present tax system. This, of course, is a matter quite apart from the volume of tax collections. It has to do rather with the most equitable and the most helpful—or should we say least harmful—distribution of inevitable tax burdens. We have no way of knowing at this time just what is to be proposed in this connection, but the President has made it clear that he and his Administration are well aware that much needs to be done, and that presently he will come forward not only with proposals about the amount of taxes which must be raised, but about how the whole tax structure may be overhauled to the advantage of all.

### But Much Is Left

For these and some other similar blessings the nation ought to be duly thankful. At the same time, candor requires that it be plainly stated that there is as yet in evidence not the slightest intention of going to work on many public matters which can not be indefinitely ignored if this country is to prosper in the future as it has in the past. Whether this attitude is a reflection of what might be termed political realism, a display of lack of understanding, or evidence of intellectual yielding to popular notions of the day is not here in question. The fact is that the President's platform is characterized by an all too evident leaning toward the New Deal and the Fair Deal, notwithstanding some serious effort to remove some of its excesses and to modify its incidence.

Not a word is included about the need of doing something about the securities acts. In point of fact, up to the present moment this whole question has not even been mentioned so far as we are aware. The vast and costly social security program, far from being reduced or brought into some degree of conformity with American tradition and ordinary prudence, will be expanded and made even more costly if the Administration has its way. It is clear that the President is under the spell—political or other—of the notion that somehow the farmer is *sui generis*, and that in some mysterious way the nation immensely benefits by policies which keep the farmer satisfied at public expense. The list of badly needed actions to rid us of New Deal and Fair Deal follies could, of course, be greatly lengthened, but enough has been said to indicate clearly enough that what the President wants done this year can scarcely be called anti-New Deal.

We make no profession of political insight. This may or may not be as much as the President could hope to accomplish this election year. The fact remains that we shall still have much of the New Deal left with us at the end of this year in any event.

*Continued from first page*

# Our Investment Abroad

of equity or of debt, but in American experience has consisted almost exclusively of debt (except for Canadian equities) and, moreover, almost always of dollar debt. In this and other respects, the discussion which follows will be entirely in terms of American experience with foreign investment and with the role of foreign investment in the balance of payments of the United States.

### Portfolio Investment Before 1930

The heyday of portfolio investment in foreign countries by the United States was in the 1920's, with a virtual cessation after 1930. Examples of portfolio investment since 1930 will be considered later. Suffice it for the present to remind that they have been confined to new and refunding loans to Canadian borrowers, a few refunding issues of other foreign borrowers, borrowings by the International Bank for Reconstruction and Development for relending, and some medium-term financing by commercial banks.

The amount of new portfolio investment abroad increased every year from 1919 to 1927, except in 1923, and reached a peak of approximately $1 billion in 1927 and 1928. There was a precipitous decline after the middle of 1928, a brief recovery in 1930, and thereafter very little activity with the exceptions noted above.

In a broad sense, the large volume of portfolio investment during the period 1919-1930 is to be attributed to foreign need and desire for dollar exchange and to the general exuberance of the securities market in the United States. The zeal of issuing houses in bringing out new issues and of bond salesmen in selling them was matched by an apparently insatiable appetite of investors for foreign dollar obligations. Yields were attractively high as compared with those on comparable domestic issues. Many of the borrowers had good debt records or had themselves been lenders to the international capital market. Government and private propaganda in favor of foreign lending was rife. The investing public had confidence in the investment bankers.

In a more detailed view, the volume of foreign bond issues offered in the American market tended to fluctuate inversely as the cost of borrowing. During the four years following the end of the war, borrowings in the United States were chiefly by European countries to finance their urgent postwar import requirements and were made even though rates of interest were high. With the decline in interest rates in 1921-1922 and with European capital markets closed, a substantial volume of Latin American and Far Eastern issues came onto the American market. There followed a brief period of relative inactivity as interest rates rose and as economic developments abroad, especially in Europe, turned distinctly unfavorable.

From 1924 until the middle of 1928, the volume of new foreign issues rose steadily. Conditions in the United States were favorable. A generally high level of business activity was accompanied by an expansion of bank credit and a decline in long-term interest rates. The securities market was increasingly active. The situation abroad was also favorable and at the same time conducive to borrowing in the United States. More settled and more prosperous conditions prevailed in Europe and elsewhere. Progress was being made toward currency stabilization. But capital was scarce, and long-term rates of interest in European markets were higher than those in the United States. Furthermore, these markets, including the London market, were partly or entirely closed to long-term foreign issues.

This combination of circumstances at home and abroad, together with the keen competition for profitable foreign issues among American investment houses, accounts for the high volume of public offerings of foreign securities during the period. The short-run fluctuations are to be explained, as already noted, by the movement of interest rates in response to changes in the domestic business and credit situations. When rates were relatively low and the cost of borrowing by foreigners accordingly reduced, new issues were brought onto the market. When rates were relatively high, issues were held off the market.

The market for foreign securities in the United States collapsed at the middle of 1928 with the general decline in the bond market. Long-term interest rates were rising, the values of outstanding securities were falling, and investor interest was more and more concentrated on domestic stocks. Political and economic conditions in certain key foreign countries were taking an unfavorable turn, and there were signs of falling markets and business recession abroad. A brief revival of the foreign bond market in 1930 was followed by the first defaults in 1931 and the end of the active period of portfolio investment abroad by the United States.

### Portfolio Investment in the Balance of Payments

In American experience, portfolio investment abroad has created freely disposable dollar exchange which foreign borrowers could use with wide latitude. This does not mean that there are not to be found examples of tied investments of the portfolio type in which loans were made for defined purposes, including the purchase of specified goods and services in the United States. The usual case, however, was that of a foreign borrower, either a government entity or a foreign corporation, using the proceeds from the sale of dollar securities as it saw fit.

In practice, this meant that portfolio investment was often unrelated to the means of repayment or even unproductive in an economic sense. The foreign loans of the '20's included loans for sterile public works, loans to cover budget deficits, and "general purpose" loans. There were instances of flagrantly wasteful use of loan proceeds. If the amounts involved had been small and if the flow of portfolio investment to the rest of the world had been sustained, perhaps no great or permanent harm would have been done to the process of international investment by the excesses of the period. However, the amounts were large, giving rise to correspondingly heavy debt service, and the movement fell off abruptly in 1928. The shock to the international economy was severe. Foreign countries had their dollar availabilities sharply reduced, while their requirements for dollar debt service remained fixed. Portfolio investment abroad had accounted for 20% of the total supply of dollars to foreign countries in 1927 and 1928. The decline in this capital movement after the middle of 1928 accounted in turn for 20% of the drop in the total supply of dollars to the rest of the world from $7.4 billion in 1927-1929 to $2.4 billion in 1932-1933. The maintenance of contractual debt service to the United States of $900 million annually was, of course, impossible in the face of these developments, and defaults became inevitable.

### Portfolio Investments Since 1930

Portfolio investment by the United States in foreign countries since 1930 has been relatively insignificant. New and refunding Canadian issues are offered in accordance with the needs of Canadian borrowers and money market conditions, but American investors consider them to be in a category apart from other foreign securities. There have been a few refunding issues, and a very few new issues, of borrowers other than Canadian.

Beginning in 1947, the International Bank for Reconstruction and Development has sold its obligations in the United States in order to raise dollar funds for relending abroad. These obligations, although technically foreign securities, are guaranteed by the United States Government up to the amount of $2.5 billion, as compared with $643 million outstanding as of December, 1953. For this reason, as well as because of the Bank's assets, conservative policies, and reputable management, International Bank bonds have been readily taken up by American institutional investors, including savings banks and insurance companies, and also by individual investors.

It is perhaps difficult for persons outside the financial community to understand the almost complete present lack of interest in foreign securities (other than Canadian and World Bank obligations) in the capital market. This lack of interest applies to investors and investment houses alike: one reinforces the other. Not even governments which are most credit-worthy on the basis of outstanding debt, debt record, and dollar position can borrow at long-term or, in fact, borrow at all except by way of short-term bank credits or on a fully secured basis. With rare exceptions, the same is true of non-governmental borrowers. The Israeli dollar bonds now being sold in the United States constitute a special case, since the appeal to investors is on a sentimental as well as an investment basis.

For all practical purposes, the function of portfolio investment abroad by the United States has been shifted, apart from investment in Canada, to the International Bank and to the Export-Import Bank. The Export-Import Bank since 1945 and the International Bank since 1947 have made aggregate loans to foreign borrowers of $5.6 billion. The annual rate of lending through these institutions is comparable in absolute terms to the rate of lending during the 1920's through publicly-offered foreign issues but has constituted a much smaller percentage of the total supply of dollars to foreigners than was the case during the earlier period. There are other differences to be noted. The development loans of the World Bank and Export-Import Bank are for carefully defined productive purposes, usually of a kind which will contribute directly or indirectly to the means of servicing the loans. The dollar debt service involved now represents a relatively small charge on current world dollar availabilities as compared with the heavy charge built up in the 1920's. In the interim, of course, dollar debt service on older issues has been greatly reduced by repayments, repatriations, defaults and adjustments under debt settlements, while dollar availabilities have greatly increased.

### Direct Investment

American direct investment abroad took place on a significant scale even before the First World War. It was substantial also in the 1920's but not as large in dollar terms as portfolio investment during the period. The amount of portfolio investment in the years 1919-1930 was $8.3 billion, as compared with $3.3 billion of direct investment, including, in the latter category, issues of domestic corporations for investment abroad. The annual volume of direct investment abroad reached its peak, along with the general business boom, in the years 1928 and 1929, in each of which the amount approximated $600 million. This movement of corporate capital to foreign countries during the period, like the movement of portfolio investment, is to be accounted for by the general expansionist sentiment of the time and, as a technical factor, the great activity in the securities market which made it possible for American corporations to offer securities at home to raise capital for employment in foreign countries.

Direct investment fell to small volume after the onset of the Great Depression and recovered but slowly during the 1930's. Then, after the interlude of the Second World War, direct investment abroad came again to significant proportions. The amount has ranged during the period since the last war between $700 million and $1,700 million annually, including the reinvestment of earnings in foreign countries. The dollar amounts involved are comparable with the total volume of American private investment abroad, both direct and portfolio, during the 1920's. In the earlier period, portfolio investment predominated; in the period since the recent war, direct investment has been by far the more important.

Direct investment, by contrast with typical portfolio investment, may or may not create disposable dollar exchange. If the investment is in the form of equipment shipped from the United States, it obviously does not. On the other hand, if it involves dollar expenditures for local labor and materials, it obviously does. No generalization from American experience would seem possible as to the proportions of these two forms of direct investment.

### Dollar Exchange from Foreign Investment

With reference to both portfolio and direct investment abroad, there are greatly exaggerated ideas current of the extent to which the capital movement involved can serve an important or lasting function in providing dollar exchange to meet the requirements of foreign countries for imports of dollar goods and services. Portfolio lending does typically create dollar exchange but, since it is almost entirely on a contractual basis, sets up an immediate return flow of debt service for interest, sinking fund and amortization. As the amount of such debt service grows with the volume of outstanding portfolio investment, it must soon overtake the amount of new investment, so that on balance there is no net contribution of dollar exchange to foreign countries.

On the other hand, direct investment, which may or may not create dollar exchange at the time it is made, is predominantly equity investment entailing no fixed return. Nevertheless, direct investment, if successful, generates a return flow of investment service. The major differences between portfolio and direct investment at this point are that service on portfolio investment is contractual and fixed, whereas service on direct investment is not only variable but may fluctuate roughly in accordance with the dollar availabilities of host countries. This is demonstrably true in the case of those direct investments, now of major importance in American experience, which involve the production of raw materials for export to the United States and the world market generally. The product of the investment provides the means of transferring earnings, and the two will typically rise and fall together.

Historically, this distinction between portfolio and direct investment was most strikingly exhibited with the onset of the Great Depression in 1930. The fixed charge on the dollar availabilities of foreign countries constituted by service on dollar debt became insupportable as the supply of dollars to the rest of the world dropped precipitously. During the same period, the return on American direct investments abroad was severely reduced, largely because the investments themselves produced much lower returns or no return at all. In many instances, indeed, it was necessary for the owners of direct investments in foreign countries to send funds abroad in order to cover the operating deficits of foreign branches or subsidiaries.

There are other significant, although perhaps commonplace, differences between direct and portfolio investment. Direct investment usually carries with it technology and elements of management, whereas portfolio investment is rarely associated with technology and, by definition, not at all with management. This difference is largely responsible for the fact that direct investment is almost always productive investment in an economic sense, whereas portfolio investment, at least in American experience, has often not been so. Furthermore, direct investment, as already noted, is usually related in practice to the means of repayment. This is manifestly true of investments in the production of raw materials for export from foreign countries. It is generally true also of investment in manufacturing operations abroad because the products manufactured displace imports, or are exported, or both. On the other hand, direct investments in power facilities, transportation facilities and other facilities yielding services which are not either imported or exported have no connection with the means of servicing them. Direct investments in such facilities are now unimportant among new direct investments of American capital in foreign countries. One of the reasons for this is, no doubt, their disassociation with the saving or earning of foreign exchange.

Direct investment, if successful, generates additional investment by way of the reinvestment of earnings. The importance of this reinvestment is indicated by comparative data on additions to American direct investments abroad since the end of the recent war by capital transfer and reinvestment of earnings, respectively. Additions to direct investments by capital transfer totalled $4.4 billion in the years 1946-1952. Additions to direct investments by reinvestment of earnings of the foreign subsidiaries of American corporations (there being no corresponding statistic for foreign branches) amounted to $3.8 billion during the same period. Thus, direct investment is not only permanent investment, by and large, but it also multiplies itself through the plowing back of earnings. This reinvestment of earnings abroad has the effect, of course, of reducing the amount of investment service transferred across the exchanges and is the equivalent, from the point of view of the balance of payments, of a capital transfer from the United States to foreign countries.

By contrast, portfolio investment, which in American experience has consisted almost entirely of debt rather than equity, is, in the nature of the case, investment subject to contractual payments of interest and repayments of principal. The consequences for the balance of payments have been already described.

Another basic distinction between direct and portfolio investment lies in differences in motivation. Portfolio investment is made on a calculation of return versus risk in comparison with investment opportunities at home. This fact goes far to explain, together with the painful experiences of the 1930's, the present apathy of American investors towards foreign securities. Heavy taxation both on income and capital gains has the effect of reducing the possible return on foreign securities to relatively small proportions, while the risk of loss of income or of capital is generally rated high in a world economy beset by political instability, international strife and all manner of economic dislocations. At the same time, the return on good domestic securities continues attractive and involves minimum risk.

Direct investments in foreign countries are not made except in anticipation of their yielding a profit. However, unlike portfolio investment, a contemplated direct investment may not be expected to yield a profit as a separate and isolated undertaking but to do so only in combination with other foreign and domestic operations of the investor. A large percentage of direct investment since the recent war has gone into the extraction, transportation and processing of raw materials, especially oil. The large amounts of capital invested have been forthcoming because corporate investors were impelled for business reasons to find and develop sources of raw materials outside the United States. This compulsion was born in turn out of a desire for diversification of sources, a desire for sources outside the dollar area, and a desire not to lose relative position in an industry by failing to participate in the exploitation of important new sources of raw materials. It happens that direct investment in the production of primary materials has been quite profitable during the postwar period, but the large-scale investment abroad in the raw material field cannot be explained on this ground.

Additional large direct investments abroad have been made since the last war in manufacturing facilities in foreign countries. Here, again, the considerations involved are primarily business motives as opposed to investment calculations. American corporations have gone extensively into manufacturing operations in order to retain or gain markets which would otherwise be closed to them because of trade and exchange restrictions. In many instances, the managements of these corporations would have preferred to manufacture in the United States and export to foreign markets, but this choice was not open to them. They either manufactured abroad or lost their markets. Furthermore, in competitive fields the decision of one competitor to go into manufacturing in a given foreign country often forced others to follow suit. Otherwise the competitor first on the ground would capture the whole market either because of cost advantages or because of protection given to him by the host country through tariffs and other means.

### Outlook for Foreign Investment

Much of the history and many of the facts of American investment abroad are ignored in current speculation about its future course and in current agitation for its stimulation. For one thing, it should be apparent that there is no correlation between the varying size of the United States economy as measured, for example, by fluctuations in gross national product, on the one hand, and, on the other, the amount of American investment in foreign countries. No systematic relationship exists; hence, projections of American investment abroad premised on such a connection are almost meaningless except as an indication of capacity to export capital.

Also fallacious is the notion that a business recession in the United States would produce an increased movement of American capital into foreign investment because investment opportunities at home would be reduced and surplus capital would seek employment abroad. It is improbable, considering the weight of the United States in the world economy, that a recession here would not be accompanied by a recession in the rest of the world, with a resulting reduction in investment opportunities abroad. It is equally improbable that American investors, which means at present primarily corporate investors, would be retrenching at home and at the same time increasing their investments abroad. The conservative reaction of corporate managements to business recession would apply alike to new investment in the United States and in foreign countries.

There is much that foreign countries could do to make their securities more attractive in the eyes of American investors by way of reducing economic risk and removing fears of adverse action by governments. Even so, the revival on any broad scale of portfolio investment abroad by the United States seems unlikely in the absence of strong inducements from the American side. The general apathy of investors and investment houses to foreign securities shows no sign of lifting. There is therefore great inertia to overcome. On the other hand, the offering of the substantial tax or other inducements to foreign investments which would be necessary to offset the counterattraction of domestic investment is at best problematical. There is the possibility of the opening up of new channels of portfolio investment abroad. The most promising of these would seem to be the specialized investment trust or mutual fund of the type which played so important a role (although under materially different circumstances) in British investment overseas during the 19th Century and the early part of the 20th. It is a sobering fact, however, that holdings of foreign securities by existing trusts and funds in the United States are negligible.

Other changes have occurred in the United States since the 1920's which militate against the revival of portfolio investment abroad. One is the increasing concentration of investment funds in the hands of institutional investors who are restrained by law or by considerations of risk from investing in foreign securities. Another is the strict regulation of security issues, which, however desirable as a reform measure, acts, nevertheless, as an impediment to offerings of foreign securities in the American capital market.

The amount and character of American direct investment abroad will presumably not be much different over the next period than its amount and character since the last war. The search for industrial raw materials in foreign countries will continue and entail a considerable annual volume of new investment. If the depletion of domestic resources proceeds according to official projections, this type of investment may be accelerated in the years ahead. So far, however, there is nothing in the historical data which could be construed as a trend. Investment in manufacturing facilities in foreign countries will also continue so long as foreign markets are fenced off by trade and exchange barriers. There is no indication here, either, of historical trend. It should be emphasized, however, that the plowing back of earnings from a steadily growing aggregate of American direct investment abroad will insure substantial annual additions to the total.

The investment abroad of American capital in the years ahead will undoubtedly make a significant contribution to the development of the resources of foreign countries and the industrialization of their economies. All things considered, however, the prospective amount of such investment cannot be expected to play more than a minor role in the balance of payments of the United States. It would be folly to rely upon it in theory or in practice, in substitution for increased purchases by the United States of goods and services from foreign countries, as a means of maintaining or raising the level of exports.

## $40,000,000 Central Bank for Cooperatives Debentures Offered

With the assistance of a nationwide selling group of recognized dealers in securities, the Central Bank for Cooperatives, Washington, D. C., yesterday (Jan. 13) offered publicly through Macdonald G. Newcomb, its fiscal agent, 31 Nassau Street, New York City, $40,000,000 of collateral trust debentures dated Feb. 1, 1954, due Feb. 1, 1955. The debentures are not redeemable before maturity. The debentures bear interest at 2⅛% per annum payable on Aug. 1, 1954 and at maturity. They are being offered at 100% and accrued interest.

Net proceeds from the sale together with cash on hand are to be used to redeem the Central Bank for Cooperatives 2½% debentures which mature on Feb. 1, 1954, and which are outstanding in the amount of $40,000,000.

The Central Bank for Cooperatives is incorporated under Federal law and operates under the supervision of the Farm Credit Administration, an independent agency in the executive branch of the Government. The Bank makes loans to the larger farmers' cooperative associations and assists in financing the 12 district banks for cooperatives. Central Bank debentures are instrumentalities of the Government of the United States, but the Government assumes no liability for them, either direct or indirect.

## Rejoins J. J. O'Brien

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — William E. Tague has rejoined the staff of John J. O'Brien & Co., 231 South La Salle Street, members of the New York and Midwest Stock Exchanges. Mr. Tague was formerly with Edgar, Ricker & Co.

Continued from page 5

# The State of Trade and Industry

adjustment period must be nearing an end, they have repeatedly underestimated the length of time customers would be out of the market, concludes "The Iron Age."

Commenting upon automotive output, "Ward's Automotive Reports" noted last week that Chrysler and some of the smaller companies have reduced their original January schedules. It added, however, that the industry still will build 514,000 cars this month. This, it adds, would be a drop of nearly 14,000 units from original schedules, but still one-third higher than December output and 10% greater than the output of January, 1953.

It further reported that retail sales of new cars in December were 380,000, below the previous 1953 low of 410,000 in November. New-car stocks on Dec. 20 were almost 60% higher than the start of January, 1953, and only 7% below the postwar high, set last Sept. 30.

## Steel Output Scheduled This Week at 75% of Capacity

The steel buyer can expect more and more opportunities to save money—at least for the near term, says "Steel," the weekly magazine of metalworking, the current week.

The savings will be made largely on freight charges, although some savings will come from price cuts on steel.

With keen competition prevailing in the steel market, steel sellers are increasingly absorbing some of the freight charges on shipments to buyers, it states. Another prospect of a lowering of the amount of freight the buyers will have to stand is a proposal by the eastern railroads to make rate reductions of 18% to 20% for shipments of many iron and steel products. Aim of those railroads is to combat truck competition and increase business for 1954. The railroads' proposal would have to be submitted to the Interstate Commerce Commission for approval, it adds.

No widespread cuts in standard prices of steel are in prospect while renewal of a wage contract with the steelworkers is approaching, it points out. Most of the current contracts expire at the end of next June. However, some downward adjustments are being made.

Also going down are some of the few remaining premium prices. The blade of competition has become so keen that products that had been considered "special" or "noncompetitive" and which carried premium prices are being cut to standard levels, continues "Steel."

On the other hand prices of silicon steel (used in electrical equipment) are being raised $3 to $18 a net ton.

Reflecting the easing in demand for steel are plates, this trade magazine notes. Only a few weeks ago the plate demand outstripped supply. Now one of the principal producers of plates has laid off 200 employees because of a decline in demand for that product. It is expected that the decline will soon bring steel producers around to absorbing freight charges on plates too.

Order books for January delivery did not fill completely and as a result steel ingot output in the week ended Jan. 10 was only 1,788,000 net tons compared with 2,000,000, a year ago, concludes "Steel."

**The American Iron and Steel Institute announced that the operating rate of steel companies having 96.1% of the steelmaking capacity for the entire industry will be at an average of 75% of capacity for the week beginning Jan. 11, 1954, equivalent to 1,788,000 tons of ingots and steel for castings.**

**Last week was the first time the industry's ingot production rate was figured on the basis of the new annual capacity rate of 124,330,410 tons as of Jan. 1, 1954. Last week the rate was 75.4% (actual), yielding 1,798,000 tons.**

**For the like week a month ago the rate was 84.3% and production 1,900,000 tons. A year ago the actual weekly production was placed at 2,238,000 tons and the operating rate was 99.3% of capacity. The percentage figures for last year are based on annual capacity of 117,547,470 tons as of Jan. 1, 1953.**

## Electric Output Rebounds Sharply Upward in Latest Week

The amount of electric energy distributed by the electric light and power industry for the week ended Saturday, Jan. 9, 1954, was estimated at 8,824,801,000 kwh., according to the Edison Electric Institute.

The current figure represents an increase of 626,689,000 kwh. above that of the preceding week, and an increase of 639,372,000 kwh., or 7.8% over the comparable 1953 week and 1,159,158,000 kwh. over the like week in 1952.

## Car Loadings Drop 15.1% Below Like Week of Last Year

Loadings of revenue freight for the week ended Jan. 2, 1954, which included New Year's holiday, decreased 3,173 cars, or 0.7% below the preceding Christmas holiday week, according to the Association of American Railroads.

Loadings totaled 477,805 cars, a decrease of 85,152 cars, or 15.1% below the corresponding 1953 week, and a decrease of 132,311 cars or 21.7% below the corresponding 1952 week, both of which weeks also included a holiday.

## U. S. Auto Output Rose in Latest Week

Automobile output for the latest week advanced above the previous week, according to "Ward's Automotive Reports."

The industry turned out an estimated 118,883 cars last week, compared with 67,131 (revised) in the previous week. A year ago the weekly production was 103,266.

Last week, the agency reported, there were 25,803 trucks made in this country, as against 19,300 in the previous week and 27,776 in the like 1953 week.

"Ward's" stated Canadian plants turned out 7,813 cars and 1,630 trucks last week, against 5,772 cars and 1,090 trucks in the preceding week and 6,614 cars and 1,964 trucks in the comparable 1953 week.

## Business Failures Soar in Latest Week

Commercial and industrial failures increased to 202 in the week ended Jan. 7, 1954, from the holiday low of 150 in the preceding week, Dun & Bradstreet, Inc., discloses. While casualties were more numerous than at this time a year ago when 163 occurred or in 1952 when there were 164, they remained 35% below the prewar toll of 312 in the comparable week of 1939.

Failures with liabilities of $5,000 or more rose to 177 from 130 last week and 138 a year ago. Among small casualties involving liabilities under $5,000, a mild increase occurred. Sixteen businesses failed with liabilities in excess of $100,000 as against 10 in the previous week.

## Wholesale Food Price Index Touches Highest Point in 28 Months

Continuing the upward movement of the past two months, the wholesale food price index, compiled by Dun & Bradstreet, Inc., advanced from $6.81 on Dec. 29, to $6.85 on Jan. 5, marking a new high for 28 months, or since Aug. 28, 1951, when it stood at $6.89. The current level at $6.85, compares with $6.23 on the corresponding date a year ago, or a rise of 10.0%.

The index represents the sum total of the price per pound of 31 foods in general use and its chief function is to show the general trend of food prices at the wholesale level.

## Wholesale Commodity Price Index Mildly Higher in Latest Week

The general commodity price level, as measured by the Dun & Bradstreet daily wholesale commodity price index, moved irregularly the past week. The index closed at 273.92 on Jan. 5, as compared with 273.55 a week earlier, and 280.90 at this time a year ago.

Grains were irregular in the week with early strength giving way to weakness as the new year opened. Wheat, corn and rye futures were under considerable hedging pressure as the result of heavy country selling in the cash markets. Oats prices registered moderate gains for the week, reflecting small offerings and the announcement that Argentine oats exports to this country would be limited to 2,500,000 bushels between now and next Fall. Trading in soybeans was active and prices moved over a wide range during the week.

**The volume of grain exports continued disappointing despite further grants to some European countries to buy American farm surpluses.**

Average daily purchases of grain and soybean futures declined to about 45,000,000 bushels last week, from 47,000,000 the previous week, and 59,000,000 a year ago.

High asking prices from producing countries as a result of tightening world supplies continued to exert an upward pressure on cocoa prices which rose to the highest levels in history. Imports of cocoa during the year 1953, according to the New York Cocoa Exchange, totaled 4,129,211 bags, or slightly above the previous year. Green coffee prices in the New York market also rose to new highs for all time as the new year opened.

With holiday influences affecting trading operations spot cotton prices held in a narrow range and finished slightly higher than a week ago. Supporting factors included year-end mill covering, scattered commission house buying and reports to the effect that the Administration has given up its idea of a two-price system.

The CCC announced loan entries of 1953 crop cotton for the season through Jan. 1, at 5,359,461 bales, indicating entries for the week of 200,176 bales. Withdrawals for the season totaled 53,716 bales, leaving 5,305,745 bales still under loan. The amount of 1952 crop cotton still under loan was reported at 1,712,839 bales. The mid-December parity price for cotton was unchanged at 34.36 cents a pound.

## Trade Volume Improves Slightly Spurred by Reduced-Price Promotions

Encouraged by many reduced-price promotions, shoppers increased their spending slightly in most parts of the nation in the period ended on Wednesdaly of last week. The spurt in shopping lifted the total dollar volume of retail sales slightly above the year ago level, to the surprise of many merchants who did not expect to match or surpass the sales figures of a year earlier. Clearance sales of Winter coats were particularly popular.

The total dollar volume of retail trade in the week was estimated by Dun & Bradstreet, Inc., to be from 1 to 5% larger than a year ago. Regional estimates varied from the comparable year-ago level by the following percentages: New England —2 to +2; East —1 to +3; Midwest and Northwest 0 to +4; South and Southwest +1 to +5 and Pacific Coast +2 to +6.

The demand for apparel recovered sharply from the market decline of the preceding week.

Early response to the traditional January promotions of household goods was favorable in most sections. Particularly active was the attention stirred by the "white sales"; bedding was increasingly popular.

**However, there continued to be discernible hesitancy in the buying of television sets which many merchants attributed to the introduction of color.**

As many buyers prepared for a new selling season, the seasonal lull in trading in many wholesale markets came to a close in the period ended on Wednesday of last week. Although buyers were generally more cautious than at this time last year, they placed sizable orders for many items for near-term delivery.

Department store sales on a country-wide basis at taken from the Federal Reserve Board's index, for the week ended Jan. 2, 1954, increased 1% above the level of the preceding week. In the previous week, Dec. 26, 1953*, an increase of 12% was reported from that of the similar week of 1952. For the four weeks ended Jan. 2, 1954, an increase of 1% was reported. For the year 1953, department store sales registered an increase of 2% above the corresponding period of 1952.

**Retail trade in New York aided by good weather rose last week about 10 to 11% above the initial week of 1953.**

According to the Federal Reserve Board's index department store sales in New York City for the weekly period ended Jan. 2, 1954, registered no change from the like period of last year. In the preceding week Dec. 26, 1953*, an increase of 19% was reported from that of the similar week of 1952, while for the four weeks ended Jan. 2, 1954, no change was reported. For the year 1953, a decrease of 1% was registered from that of the 1952 period.

*The large increase shown for this week reflect in part the fact that this year Christmas fell on Friday and the week therefore included four days of heavy pre-Christmas shopping as compared with the three days last year when Christmas fell on Thurday.

# Becker Group Offers Marquette Cement Stk.

Offering of 100,000 common shares of Marquette Cement Manufacturing Co. was made on Jan. 12 at $34 per share by an underwriting group managed by A. G. Becker & Co., Inc. Proceeds from the sale will be used by the company in connection with the acquisition and improvement of cement plants at Rockmart, Ga., and Superior, Ohio.

These plants were acquired as of the first of this month from Southern States Portland Cement Co. and New York Coal Co., respectively, at an aggregate cost of $6,300,000. The projected improvements will bring total cost to the neighborhood of $10,000,000.

Necessary funds, aside from those provided by the present financing, are being obtained by additions to long-term borrowings and from internal sources.

The new plants will add approximately 2,000,000 barrels to the company's annual capacity, increasing it to 13,354,000 barrels, at which figure the company is estimated to be fifth largest in the country.

Other plants are located at Oglesby, Ill.; Des Moines, Ia.; Cape Girardeau, Mo.; Nashville, Tenn.; Cowan, Tenn., and Brandon, Miss.

Giving effect to financing in connection with the present acquisitions the company will have long-term debt of $12,000,000, $3,175,000 in preferred stock and 950,000 common shares.

Earnings in 1952 amounted to $4 per share on the stock then outstanding and in the first ten months of 1953 to $4.08 per share. The stock was recently placed on a $2 annual dividend basis.

# Blyth-First Boston Group Offers Shares Of Kansas City P. & L.

A group headed by Blyth & Co., Inc. and The First Boston Corporation is offering for public sale today (Jan. 14) additional common and preferred stock of Kansas City Power & Light Co.

The common stock consists of 225,460 shares (without par value) being offered at $32.50 per share. The other part of the offering is made up of 70,000 shares of 4.20% cumulative preferred stock ($100 par value) priced at $101.

The new preferred stock is redeemable, at the option of the company, at prices ranging from $105.50 per share if redeemed prior to Feb. 28, 1957, to $102 per share after Feb. 29, 1964.

Proceeds from the sale of the common and preferred stock will be used to defray part of the cost of the utility's construction and acquisition program which cost approximately $21,000,000 in 1953 and is expected to cost $21,500,000 in 1954.

The company's principal business is the production and sale of electricity in an area in Missouri and Kansas which includes Kansas City, Mo. To a lesser degree it distributes natural gas, hot water heat, and water. The company also serves an area in northern Iowa, including Mason City.

For the 12 months ended Oct. 31, 1953, the company had total operating revenues of $45,127,000, net income of $6,521,000, and per share earnings of $2.42.

## Loewi Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

MILWAUKEE, Wis.—Harvey J. LaChapelle has been added to the staff of Loewi & Co., 225 East Mason Street, members of the Midwest Stock Exchange.

# Indications of Current Business Activity

**The following statistical tabulations cover production and other figures for the latest week or month available. Dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date:**

| | | Latest Week | Previous Week | Month Ago | Year Ago |
|---|---|---|---|---|---|
| **AMERICAN IRON AND STEEL INSTITUTE:** | | | | | |
| Indicated steel operations (percent of capacity) | Jan. 17 | ¶75.0 | *75.4 | 84.3 | 99.3 |
| Equivalent to— | | | | | |
| Steel ingots and castings (net tons) | Jan. 17 | ¶1,786,000 | *1,798,000 | 1,900,000 | 2,238,000 |
| **AMERICAN PETROLEUM INSTITUTE:** | | | | | |
| Crude oil and condensate output—daily average (bbls. of 42 gallons each) | Jan. 2 | 6,194,900 | *6,233,700 | 6,179,400 | 6,515,950 |
| Crude runs to stills—daily average (bbls.) | Jan. 2 | †7,202,000 | 7,011,000 | 6,964,000 | 7,221,000 |
| Gasoline output (bbls.) | Jan. 2 | 25,141,000 | 25,192,000 | 24,876,000 | 24,306,000 |
| Kerosene output (bbls.) | Jan. 2 | 3,020,000 | 2,505,000 | 2,667,000 | 3,009,000 |
| Distillate fuel oil output (bbls.) | Jan. 2 | 10,358,000 | 9,952,000 | 9,664,000 | 10,921,000 |
| Residual fuel oil output (bbls.) | Jan. 2 | 8,805,000 | 8,702,000 | 8,628,000 | 9,524,000 |
| Stocks at refineries, bulk terminals, in transit, in pipe lines— | | | | | |
| Finished and unfinished gasoline (bbls.) at | Jan. 2 | 160,075,000 | 156,030,000 | 150,098,000 | 137,016,000 |
| Kerosene (bbls.) at | Jan. 2 | 29,081,000 | 30,251,000 | 34,775,000 | 28,094,000 |
| Distillate fuel oil (bbls.) at | Jan. 2 | 113,582,000 | 117,231,000 | 130,053,000 | 99,713,000 |
| Residual fuel oil (bbls.) at | Jan. 2 | 49,435,000 | 49,810,000 | 51,073,000 | 49,459,000 |
| **ASSOCIATION OF AMERICAN RAILROADS:** | | | | | |
| Revenue freight loaded (number of cars) | Jan. 2 | 477,805 | 480,978 | 662,035 | 562,957 |
| Revenue freight received from connections (no. of cars) | Jan. 2 | 463,906 | 518,935 | 573,538 | 511,981 |
| **CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:** | | | | | |
| Total U. S. construction | Jan. 7 | $225,873,000 | $153,197,000 | $655,138,000 | $323,666,000 |
| Private construction | Jan. 7 | 78,926,000 | 52,193,000 | 528,209,000 | 135,062,000 |
| Public construction | Jan. 7 | 146,947,000 | 101,004,000 | 126,929,000 | 188,604,000 |
| State and municipal | Jan. 7 | 135,292,000 | 89,087,000 | 118,072,000 | 117,758,000 |
| Federal | Jan. 7 | 11,655,000 | 11,917,000 | 8,857,000 | 70,846,000 |
| **COAL OUTPUT (U. S. BUREAU OF MINES):** | | | | | |
| Bituminous coal and lignite (tons) | Jan. 2 | 6,940,000 | 6,515,000 | 8,200,000 | 7,725,000 |
| Pennsylvania anthracite (tons) | Jan. 2 | 410,000 | 499,000 | 557,000 | 514,000 |
| Beehive coke (tons) | Jan. 2 | 40,900 | *51,200 | 70,800 | 92,000 |
| **DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1947-49 AVERAGE = 100** | Jan. 2 | 82 | 163 | 190 | 81 |
| **EDISON ELECTRIC INSTITUTE:** | | | | | |
| Electric output (in 000 kwh.) | Jan. 9 | 8,824,801 | *8,198,112 | 8,661,131 | 8,210,012 |
| **FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET, INC.** | Jan. 7 | 202 | 150 | 216 | 163 |
| **IRON AGE COMPOSITE PRICES:** | | | | | |
| Finished steel (per lb.) | Jan. 5 | 4.634c | 4.634c | 4.632c | 4.376c |
| Pig iron (per gross ton) | Jan. 5 | $56.59 | $56.59 | $56.59 | $55.26 |
| Scrap steel (per gross ton) | Jan. 5 | $29.67 | $30.17 | $32.00 | $42.00 |
| **METAL PRICES (E. & M. J. QUOTATIONS):** | | | | | |
| Electrolytic copper— | | | | | |
| Domestic refinery at | Jan. 6 | 29.700c | 29.700c | 29.700c | 24.200c |
| Export refinery at | Jan. 6 | 28.650c | 29.295c | 28.600c | 34.800c |
| Straits tin (New York) at | Jan. 6 | 85.250c | 84.750c | 83.250c | 121.500c |
| Lead (New York) at | Jan. 6 | 13.500c | 13.500c | 13.500c | 14.750c |
| Lead (St. Louis) at | Jan. 6 | 13.300c | 13.300c | 13.300c | 14.550c |
| Zinc (East St. Louis) at | Jan. 6 | 10.000c | 10.000c | 10.000c | 13.000c |
| **MOODY'S BOND PRICES DAILY AVERAGES:** | | | | | |
| U. S. Government Bonds | Jan. 12 | 96.97 | 96.83 | 96.22 | 95.79 |
| Average corporate | Jan. 12 | 106.56 | 106.39 | 106.21 | 109.42 |
| Aaa | Jan. 12 | 111.44 | 111.25 | 110.88 | 113.31 |
| Aa | Jan. 12 | 108.52 | 108.16 | 108.16 | 111.81 |
| A | Jan. 12 | 106.21 | 106.21 | 106.04 | 108.70 |
| Baa | Jan. 12 | 100.32 | 100.16 | 100.32 | 104.14 |
| Railroad Group | Jan. 12 | 104.14 | 104.14 | 103.80 | 106.74 |
| Public Utilities Group | Jan. 12 | 107.09 | 106.74 | 106.56 | 109.24 |
| Industrials Group | Jan. 12 | 108.34 | 107.98 | 108.34 | 112.37 |
| **MOODY'S BOND YIELD DAILY AVERAGES:** | | | | | |
| U. S. Government Bonds | Jan. 12 | 2.71 | 2.72 | 2.76 | 2.80 |
| Average corporate | Jan. 12 | 3.36 | 3.37 | 3.38 | 3.20 |
| Aaa | Jan. 12 | 3.09 | 3.10 | 3.12 | 2.99 |
| Aa | Jan. 12 | 3.25 | 3.27 | 3.27 | 3.07 |
| A | Jan. 12 | 3.38 | 3.38 | 3.39 | 3.24 |
| Baa | Jan. 12 | 3.73 | 3.74 | 3.73 | 3.50 |
| Railroad Group | Jan. 12 | 3.50 | 3.50 | 3.52 | 3.35 |
| Public Utilities Group | Jan. 12 | 3.33 | 3.35 | 3.36 | 3.21 |
| Industrials Group | Jan. 12 | 3.26 | 3.28 | 3.26 | 3.04 |
| **MOODY'S COMMODITY INDEX** | Jan. 12 | 418.9 | 412.7 | 408.8 | 404.8 |
| **NATIONAL PAPERBOARD ASSOCIATION:** | | | | | |
| Orders received (tons) | Dec. 31 | **185,853 | 145,118 | 192,667 | ‡312,725 |
| Production (tons) | Dec. 31 | **103,430 | 200,597 | 235,824 | ‡299,914 |
| Percentage of activity | Dec. 31 | **43 | 77 | 86 | ‡66 |
| Unfilled orders (tons) at end of period | Dec. 31 | **392,425 | 313,963 | 374,435 | ‡478,354 |
| **OIL, PAINT AND DRUG REPORTER PRICE INDEX— 1949 AVERAGE = 100** | Jan. 8 | 107.47 | 107.38 | 107.45 | 108.50 |
| **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 | Dec. 26 | 19,289 | 24,661 | 18,876 | 21,368 |
| Number of shares | Dec. 26 | 580,262 | 750,883 | 559,576 | 624,121 |
| Dollar value | Dec. 26 | $23,617,381 | $31,713,691 | $24,192,630 | $26,891,345 |
| Odd-lot purchases by dealers (customers' sales)— | | | | | |
| Number of orders—Customers' total sales | Dec. 26 | 22,880 | 28,670 | 20,306 | 23,409 |
| Customers' short sales | Dec. 26 | 141 | 139 | 187 | 88 |
| Customers' other sales | Dec. 26 | 22,739 | 28,531 | 20,119 | 23,321 |
| Number of shares—Total sales | Dec. 26 | 701,514 | 846,235 | 589,933 | 681,537 |
| Customers' short sales | Dec. 26 | 4,570 | 4,915 | 7,002 | 2,576 |
| Customers' other sales | Dec. 26 | 696,944 | 841,320 | 582,931 | 678,961 |
| Dollar value | Dec. 26 | $25,251,188 | $30,885,477 | $22,176,603 | $27,115,753 |
| Round-lot sales by dealers— | | | | | |
| Number of shares—Total sales | Dec. 26 | 285,260 | 304,640 | 200,590 | 229,990 |
| Short sales | Dec. 26 | ------ | ------ | ------ | ------ |
| Other sales | Dec. 26 | 285,260 | 304,640 | 200,590 | 229,990 |
| Round-lot purchases by dealers— | | | | | |
| Number of shares | Dec. 26 | 149,610 | 216,600 | 186,440 | 182,520 |
| **TOTAL ROUND-LOT STOCK SALES ON THE NEW YORK EXCHANGE AND ROUND-LOT STOCK TRANSACTIONS FOR ACCOUNT OF MEMBERS (SHARES):** | | | | | |
| Total Round-lot sales— | | | | | |
| Short sales | Dec. 19 | 231,280 | 263,540 | 298,280 | 235,670 |
| Other sales | Dec. 19 | 8,095,420 | 7,058,190 | 6,788,740 | 9,819,050 |
| Total sales | Dec. 19 | 8,326,700 | 7,321,730 | 7,087,020 | 10,054,720 |
| **ROUND-LOT TRANSACTIONS FOR ACCOUNT OF MEMBERS, EXCEPT ODD-LOT DEALERS AND SPECIALISTS:** | | | | | |
| Transactions of specialists in stocks in which registered— | | | | | |
| Total purchases | Dec. 19 | 791,560 | 750,450 | 696,950 | 956,120 |
| Short sales | Dec. 19 | 127,930 | 119,230 | 138,350 | 152,140 |
| Other sales | Dec. 19 | 633,540 | 573,370 | 553,720 | 786,700 |
| Total sales | Dec. 19 | 761,470 | 692,600 | 692,070 | 938,840 |
| Other transactions initiated on the floor— | | | | | |
| Total purchases | Dec. 19 | 212,380 | 199,260 | 203,580 | 246,500 |
| Short sales | Dec. 19 | 7,900 | 6,700 | 19,400 | 6,500 |
| Other sales | Dec. 19 | 151,790 | 157,590 | 177,930 | 258,940 |
| Total sales | Dec. 19 | 159,690 | 164,290 | 197,330 | 265,440 |
| Other transactions initiated off the floor— | | | | | |
| Total purchases | Dec. 19 | 314,430 | 300,960 | 222,860 | 407,353 |
| Short sales | Dec. 19 | 22,670 | 56,050 | 28,650 | 30,440 |
| Other sales | Dec. 19 | 228,750 | 211,510 | 247,390 | 362,937 |
| Total sales | Dec. 19 | 251,420 | 267,560 | 276,040 | 393,377 |
| Total round-lot transactions for account of members— | | | | | |
| Total purchases | Dec. 19 | 1,318,370 | 1,250,670 | 1,123,390 | 1,609,973 |
| Short sales | Dec. 19 | 158,500 | 181,980 | 186,400 | 189,080 |
| Other sales | Dec. 19 | 1,014,080 | 942,470 | 979,040 | 1,408,577 |
| Total sales | Dec. 19 | 1,172,580 | 1,124,450 | 1,165,440 | 1,597,657 |
| **WHOLESALE PRICES, NEW SERIES — U. S. DEPT. OF LABOR — (1947-49 = 100):** | | | | | |
| Commodity Group— | | | | | |
| All commodities | Jan. 5 | 110.4 | 110.6 | 110.1 | 109.8 |
| Farm products | Jan. 5 | 96.2 | *97.1 | 95.0 | 101.1 |
| Processed foods | Jan. 5 | 105.8 | *105.7 | 104.7 | 104.0 |
| Meats | Jan. 5 | 91.4 | 91.6 | 86.8 | 97.1 |
| All commodities other than farm and foods | Jan. 5 | 114.5 | 114.5 | 114.5 | 112.9 |

*Revised figure. ¶Includes 616,000 barrels of foreign crude runs. §Based on new annual capacity of 124,330,410 tons as of Jan. 1, 1954, as against the Jan. 1, 1953 basis of 117,547,470 tons. †Preliminary figure. ‡Eleven days ended Dec. 31, 1952. **Five days ended Dec. 31, 1953.

| | Latest Month | Previous Month | Year Ago |
|---|---|---|---|
| **BUILDING PERMIT VALUATION — DUN & BRADSTREET, INC.—215 CITIES—Month of November:** | | | |
| New England | $16,913,929 | $27,020,458 | $14,807,902 |
| Middle Atlantic | 78,063,194 | 99,264,320 | 64,576,550 |
| South Atlantic | 46,213,936 | 34,015,310 | 26,352,714 |
| East Central | 76,524,092 | 94,164,738 | 68,994,047 |
| South Central | 53,394,798 | 55,122,379 | 58,664,223 |
| West Central | 22,832,476 | 29,289,713 | 20,667,868 |
| Mountain | 13,772,199 | 10,433,981 | 8,950,612 |
| Pacific | 67,862,773 | 75,398,061 | 64,633,141 |
| Total United States | $375,582,397 | $424,708,960 | $327,647,057 |
| New York City | 49,037,818 | 56,692,401 | 39,097,490 |
| Outside New York City | 326,544,579 | 368,016,559 | 288,549,567 |
| **BUSINESS FAILURES—DUN & BRADSTREET, INC.—Month of November:** | | | |
| Manufacturing number | 175 | 188 | 121 |
| Wholesale number | 88 | 84 | 66 |
| Retail number | 389 | 404 | 280 |
| Construction number | 97 | 89 | 62 |
| Commercial service number | 66 | 75 | 61 |
| Total number | 815 | 840 | 590 |
| Manufacturing liabilities | $13,568,000 | $14,956,000 | $5,853,000 |
| Wholesale liabilities | 4,836,000 | 4,235,000 | 2,424,000 |
| Retail liabilities | 11,083,000 | 9,671,000 | 5,865,000 |
| Construction liabilities | 4,621,000 | 4,366,000 | 1,588,000 |
| Commercial service liabilities | 2,687,000 | 3,848,000 | 3,027,000 |
| Total liabilities | $36,795,000 | $37,076,000 | $18,757,000 |
| **BUSINESS INVENTORIES — DEPT. OF COMMERCE NEW SERIES—Month of October (millions of dollars):** | | | |
| Manufacturing | $46,294 | *$46,515 | $43,415 |
| Wholesale | 10,680 | *10,585 | 10,122 |
| Retail | 22,061 | *22,280 | 20,652 |
| Total | $79,035 | *$79,380 | $74,189 |
| **CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD — Month of December (000's omitted):** | | | |
| Total U. S. construction | $1,510,921 | $794,315 | $906,976 |
| Private construction | 929,340 | 405,043 | 530,230 |
| Public construction | 581,581 | 389,272 | 376,746 |
| State and municipal | 505,198 | 314,417 | 246,463 |
| Federal | 76,383 | 74,855 | 130,283 |
| **CONSUMER CREDIT OUTSTANDING—BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM REVISED SERIES—Estimated short and intermediate term credit in millions as of Nov. 30:** | | | |
| Total consumer credit | $28,252 | $28,166 | $24,611 |
| Instalment credit | 21,586 | 21,486 | 17,961 |
| Automobile | 10,358 | 10,337 | 7,856 |
| Other consumer goods | 5,406 | 5,366 | 4,962 |
| Repair and modernization loans | 1,604 | 1,585 | 1,393 |
| Personal loans | 4,218 | 4,198 | 3,750 |
| Noninstalment credit | 6,666 | 6,680 | 6,650 |
| Single payment loans | 2,100 | 2,131 | 2,100 |
| Charge accounts | 2,840 | 2,811 | 2,839 |
| Service credit | 1,726 | 1,738 | 1,711 |
| **EMPLOYMENT AND PAYROLLS—U. S. DEPT. OF LABOR—REVISED SERIES—Month of September:** | | | |
| All manufacturing (production workers) | 13,829,000 | *13,862,000 | 13,477,000 |
| Durable goods | 8,009,000 | *8,065,000 | 7,634,000 |
| Nondurable goods | 5,820,000 | *5,797,000 | 5,843,000 |
| Employment Indexes (1947-49 Avge.=100)— | | | |
| All manufacturing | 111.8 | *112.1 | 109.0 |
| Payroll Indexes (1947-49 Average=100)— | | | |
| All manufacturing | 150.0 | *151.4 | 143.3 |
| Estimated number of employees in manufacturing industries— | | | |
| All manufacturing | 17,215,000 | *17,265,000 | 16,680,000 |
| Durable goods | 9,952,000 | *10,019,000 | 9,440,000 |
| Nondurable goods | 7,263,000 | *7,246,000 | 7,240,000 |
| **INDUSTRIAL PRODUCTION—BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM—1947-49=100—Month of Nov.:** | | | |
| Seasonally adusted | 130 | 132 | 133 |
| Unadjusted | 131 | 136 | 134 |
| **MANUFACTURERS' INVENTORIES & SALES (DEPT. OF COMMERCE) NEW SERIES—Month of October (millions of dollars):** | | | |
| Inventories— | | | |
| Durables | $26,451 | *$26,430 | $23,615 |
| Nondurables | 19,843 | *20,084 | 19,800 |
| Total | $46,294 | *$46,515 | $43,415 |
| Sales | 24,902 | *25,398 | 24,651 |
| **MONEY IN CIRCULATION—TREASURY DEPT. —As of Oct. 31 (000's omitted)** | $30,398,000 | $30,275,000 | $29,644,000 |
| **NON-FARM REAL ESTATE FORECLOSURES—FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION—Month of Sept.** | 1,820 | 1,777 | 1,486 |
| **PERSONAL INCOME IN THE UNITED STATES (DEPARTMENT OF COMMERCE)—Month of October (in billions):** | | | |
| Total personal income | $287.3 | *$286.3 | $277.3 |
| Wage and salary receipts, total | 199.7 | *199.9 | 190.2 |
| Total employer disbursement | 195.9 | *196.0 | 186.6 |
| Commodity producing industries | 88.8 | *89.3 | 84.7 |
| Distributing industries | 53.0 | *52.7 | 50.0 |
| Service industries | 24.1 | *24.1 | 22.4 |
| Government | 33.8 | *33.8 | 33.1 |
| Less employee contributions for social insurance | 4.0 | 4.0 | 3.9 |
| Other labor income | 5.1 | 5.1 | 5.0 |
| Proprietors and rental income | 49.1 | *49.0 | 51.4 |
| Personal interest income and dividends | 22.8 | 22.7 | 21.3 |
| Total transfer payments | 14.6 | 13.6 | 13.3 |
| Total nonagricultural income | 271.0 | *270.0 | 258.0 |
| **PRICES RECEIVED BY FARMERS — INDEX NUMBER — U. S. DEPT. OF AGRICULTURE — September, 1909-July, 1951=100 —As of Oct. 15:** | | | |
| Unadjusted— | | | |
| All farm products | 250 | 256 | 282 |
| Crops | 231 | 234 | 260 |
| Food grain | 223 | 219 | 240 |
| Feed grain and hay | 187 | 200 | 219 |
| Tobacco | 439 | 452 | 429 |
| Cotton | 274 | 279 | 311 |
| Fruit | 214 | 221 | 215 |
| Truck crops | 175 | 159 | 189 |
| Oil-bearing crops | 255 | 251 | 304 |
| Livestock and products | 267 | 276 | 301 |
| Meat animals | 273 | 299 | 328 |
| Dairy products | 283 | 274 | 316 |
| Poultry and eggs | 236 | 231 | 228 |

*Continued from page 16*

# NYSE Monthly Investment Plan— An Idea for Democratic Capitalism!

bought, and member firms will send you annual reports, and vote your full shares in accordance with your written instructions. After you have received a stock certificate, your dividends, reports and proxies will come to you direct from the company.

You can get your stock at the completion of your Monthly Investment Plan or when the shares for your account total 50 or more. There is no charge for delivery. If you want any or all of your shares at more frequent intervals there will be a charge of one dollar plus mailing cost on each delivery.

### Good Investment Principles

Thus, with the Monthly Investment Plan you can provide the average investor with a sound program based on good investment principles. Of course everyone has a different set of investment principles, but let's check against these three:

**(1) Investment Advice and Review:** The Plan does not provide these elements automatically but the broker can supply them. As member firms have pointed out, bringing in these new investors carries with it the usual necessity and opportunity to inform and guide them in the principles of sound investment—to prevent the purchase of common stocks by those who can't afford the risk, and to tailor the stocks purchased to the prospects' desire and ability to bear such risk. If we are to interest new millions of people in share ownership, the Plan must not be over-sold. One of the things that we must guard against is letting the buyer assume a monthly Plan which he can't afford to keep up. It would be extremely shortsighted to encourage a man to buy a Monthly Investment Plan of $100 a month only to have him drop it because it is too heavy a burden. How much better to sell him a Plan of $50 a month, which he can maintain for a period of years.

So the broker can make an important contribution, first, by helping the investor to define his objectives, and second, by guiding him in the selection of stocks. Naturally, the average investor may be interested primarily in institutional type stocks. Even if he is buying just one Plan and one stock, he can provide diversification by selecting a stock in a diversified company. Perhaps the simplest way for a firm to handle selection is to develop a list of stocks which it thinks is suitable for the average investor in the Plan. On such a list you could even include closed-end investment companies and preferred stocks which are listed. Also, it is obviously easier and less expensive to review such a list periodically rather than to try to keep tract of many Plans among the list of 1,200 different stocks.

**(2) Periodic Purchases:** Since the Monthly Investment Plan is a periodic program it provides automatic dollar cost averaging. Now dollar cost averaging sounds like magic to a lot of people and it is an inherent advantage in the Plan. However, the investor—particularly the new investor who will come in on this Plan—must realize that he can benefit from downswings in the price of the stock he is buying only providing its long range price trend is upward and he has continued his periodic purchases during the period of declining prices.

**(3) Compounding Dividends:** The Plan provides the opportunity for the investor to receive his dividends direct or to reinvest them. While there would be advantage in having these new investors get the feel of ownership from those dividend checks it will probably be more desirable for most of them to accelerate their investment program by reinvesting and compounding the dividends.

Now, I would like to show you a few slides on how an investor would have fared with this Plan over the past 25 years. We asked Standard & Poor's to compute the investment return on 21 five-year Plans of $40 a month. Instead of trying to pick an individual stock we suggested that they use a composite of their 90-stock index. Dividends were reinvested, less the estimated income tax for a man and wife and two children, with an annual income of $3,000, and less the 6% commission on all purchases.

**Slide 1:** Here you see the results of one five-year plan starting the first year after World War II—1946 to 1950. At $40 a month the amount invested over the five years was $2,400. During this period dividends were reinvested after deducting the regular 6% commission and the estimated income tax. The result in terms of the Standard & Poor's 90 stock index is shown as the bar at the right for December, 1950—$3,061, a net gain of 27.6%. Of course, if the holdings were sold at that time, commissions and taxes, both transfer and capital gains, would have to be deducted. The red portion at the top of the bar represents the increase in the value of the holdings caused by the reinvestment of dividends. The shares purchased by the dividends have also appreciated.

**Slide 2:** Now you see the results for 21 such five-year plans, starting at the first of each year from 1929 through 1949. For obvious reasons we wanted to include 1929 and the period of the depression. The red part of the bars shows the result of reinvesting the dividends, less commission and income taxes.

**Slide 3:** Here is the same chart showing the percentage, loss or gain, in the market value at the end of each five-year period over the original investment of $2,400. Five of the periods show a loss. Seven others have gains up to 12%. The remaining nine plans show increases ranging from 24 to 87%.

It is evident from this chart that, based upon Standard & Poor's 90 stock index, the Monthly Investment Plan is not a get-rich-quick proposition. However, when you recall what happened to most property values during the 30's, it seems significant that due to dollar cost averaging the greatest loss at the end of any five year period is only 16%.

**Slide 4:** This is what would have happened to the investor who bought the Plan from January 1946 through December 1950, and held on to his securities up to now. Instead of a 27% gain over the original investment of $2,400, he now shows an increase in value to $3,884. This represents a gain of about 62%. In addition to this gain, the investor would have received during the three year period—from 1951 through 1953—a total of $672.40 in cash dividends, an average of about $225 a year. This represents an additional return before income taxes of about 9.3% per year on his original investment of $2,400.

**Slide 5:** Now assume that each of the first 20 five-year plans which we saw on the second slide was held intact up to now. No sales, no additions, no dividends reinvested since the end of each five-year Plan. In every instance the market value is greater than the original investment. In fact, the market value for 13 out of the 20 plans is more than double the original investment. Of course, no adjustments have been made for sales commissions, or capital gains taxes.

**Slide 6:** So, in addition to the capital gain shown on the previous chart, this is the average annual rate of dividends for each of these plans since the end of the five-year period. The percentages shown are not the current rate of return. They are the total amount of dividends received since the completion of each plan divided by the number of years since the plan was completed and applied to the original $2,400 investment. As you can see, these average annual yields range from a low of 7.4% to a top of 11%. The bar for the 1949-53 period shows the current rate—a little less than 7.7% — which is the amount of dividends the 90 stock index would be paying now on a plan which was just completed. On this basis people who might have bought stocks under the Plan from 1929 on and held on to them would have done very well indeed.

Of course these figures can give us no bearing whatever on the investment return for the future, but at least it is interesting to see how the Plan might have worked out over the past 25 years. Naturally, such figures as these can't be used with the public, unless they are carefully qualified as being historical and having no validity for future performance.

An excellent piece of sales ammunition for periodic purchasing is provided by the University of Michigan study with which you are probably familiar. "The Exchange" magazine for November carried the story of that study under the title "How Good Are Common Stocks," and the Exchange will have a booklet with that article available to Member Firms at cost. Based on experience from 1937 to 1950, that study concluded that if you were to invest a fixed sum of money every year for a period of years in a cross section of common stocks, and if you reinvested all dividends, the return you could expect would be the equivalent of 12.2% compound interest on your money, without providing for income taxes.

Can you afford to sell this Plan? That probably depends on how you go about it. The commission rates should give the customer's broker a return that compares favorably with that offered by mutual funds. Moreover, the Plan is so simple and highly mechanized that after the purchase order is signed, the broker and his firm have little else to do—unless the payments should stop. The odd lot houses take over the job of making the purchase, handling the bookkeeping, sending out the receipts and confirmations, mailing or reinvesting dividends, taking custody of the stock, and receiving, handling and acknowledging future purchases.

This should permit you to concentrate on developing new business. Some firms may regard the Plan as merely a new way to buy stocks and as an additional tool for their present sales operation. For other firms it may lead to new, low-cost, mass-selling techniques—perhaps even special sales departments.

### The Plan and Special Markets

How can you use the Monthly Investment Plan to sell special markets? We think you will discover many new applications when you actually take the Plan out into the field. Certainly, no one of us at this time can foresee all of the opportunities — nor all of the problems. And one of the advantages of the Plan is that it can be adapted to so many types of investment situations and markets.

Let's take a couple of examples for different markets:

As you know, many companies are strongly in favor of employees owning stock in their own company or in listed companies. Frequently, however, these companies do not have stock purchase plans for their employees and are reluctant to encourage their own employees to buy their stock. It seems likely that some of them would welcome the chance of permitting our member firms to sell their stock, or stock in other listed companies, under this Plan. All that is necessary is that the company approve the idea of making payroll deductions at the request of employees.

After getting the company to agree to make payroll deductions, member firms might try to get further company cooperation. For example:

**To hold meetings with groups of employees,** either during or after busines hours. During these meetings representatives might explain the nature of the Plan and the investments which they recommend.

**To distribute folders describing the Plan in company pay envelopes.**

**To set up information and order booths in company plants and offices.**

It would also seem advisable to try to get the cooperation of the local unions or at least to make sure that they will not oppose the program.

If a listed company agrees to make payroll deductions for its own stock under the Plan, member firms should suggest that the company check with its counsel to make sure that its activities will not require its registration under the Securities Act of 1933. In the opinion of counsel for the Exchange, registration is not required unless the company's activities in connection with the Plan constitute a "sale," as defined by the 1933 Act.

After signing a purchase order, the employee should arrange with his employer for the appropriate payroll deduction. A company can make payroll deductions for the Plan weekly or otherwise in amounts as small as $4 a week (under an employee's plan of, say, $52 per quarter) or about $10 a week (under a plan of $40 per month). The company would accumulate funds for such deductions and remit them by a single check with the list of employees' amounts at monthly or quarterly intervals. The company would address its remittance to the member firm, in care of the central post office box of the Monthly Investment Plan in New York. From then on all details, including notices of execution, would be handled under the Monthly Investment Plan directly with the individual employees.

### The Executive Market

Let's look now at the Executive market. The Brookings study showed that only 45% of administrative executives own stock of any kind—even in their own companies. And this is a group having the highest share ownership. This means that 55% of these executives should be prospects for new accounts. Here is a tremendous business potential for almost any firm and another possible application for the Plan.

We all know the problems of trying to save money today, no matter how large or small the salary. With every pay increase taxes go up and expenses seem to keep pace. We all know executives on generous salaries who have great difficulty accumulating sums to invest in common stocks. The idea of acquiring a list of stocks through periodic payment out of income will seem attractive to a lot of these men.

To sell these executives — and the merchants and professionals and similar groups — you may wish to work out a special version of the Plan.

Your executive portfolio may offer the executive a Plan to invest $5,000, $10,000 or $25,000 over a period of time, perhaps five years. If the executive can set aside $150 a month he could buy three monthy Plans of $50 each. This would give him an opportunity for diversification by investing in three different stocks. Through reinvestment of dividends he would invest over a five year period about $10,000. Or $150 per month could cover as many as nine quarterly Plans of $50 each with three payable each month. If he could set aside $200 a month he could buy five different stocks in five monthly Plans at $40 each.

Of course the cost of achieving such diversification is a higher commission rate. For example, on a $50 purchase the commission is 6% as compared to 4% on a purchase of $150.

As NYSE Chairman, Dick Crooks, has pointed out, the Plan also seems to provide an ideal vehicle for investment clubs.

There are many other opportunities to develop special merchandising packages for special investment needs. For example, some companies may wish to offer a program for college education, or a retirement portfolio. Of course, the reason for developing such special Plans is to give the broker an opportunity to approach a particular group of prospects with a specially tailored package and a special sales story.

Yesterday in cooperation with member firms we released a merchandising kit. I believe that you all found copies of the portfolio on these seats. Since this kit contains a number of important sales tools to help you sell the Plan, perhaps it would be a good idea to go through it quickly to indicate the kind of information which you will fnd in it.

In the first pocket inside is our basic question and answer book and a six-page leaflet digesting the important features of the Plan. These folders can be imprinted with the name of your firm and are available at cost. They are the basic sales tools for the Plan. Also, in the first pocket is a booklet which can give you some practical advice on getting the best results from direct mail. You will also find three offering letters which can be used as they are or adapted in any way you see fit. These letters are directed toward getting inquiries for the basic booklet. In this way you can cull out of a large mailing list the best prospects at lowest cost. A suggested transmittal letter for enclosing the booklet to the prospect is also included. You will notice that the transmittal letter informs the prospect that a representative of the firm will get in touch with him during the next few days. You will see also a sample mailing showing the most efficient direct mail technique with window envelopes and the prospect's name and address filled in on a card requesting the booklet.

The next pocket contains complete material for a newspaper campaign, including nine suggested newspaper ads. (Mats for any or all of these ads are available at no cost.) The advertisements are only suggestions; they can be used as is or adapted in any way. In this pocket also are suggestions on how to use newspaper advertising and a newspaper publicity release for a firm to use in announcing its participation in the Plan.

The pocket on the following page includes display material and "on the air" promotion. Here are some suggestions on how to use radio and television and specially prepared commercials for both media. There is a sample counter card. The window poster in larger size is identical. Both the counter card and the window poster are available at cost. In case you have occasion to talk about the Plan to clubs or other groups, we have included some speech material which you may find helpful.

On the last page are order forms and reply envelopes.

All this material is available at cost. The project will be largely self-liquidating. Obviously, individual members will find that use of these materials will save a lot of money over what it would cost to prepare them for themselves.

So that's a quick picture of the Plan as we see it—the tremendous potential of the market which it opens up, how the Plan works, and some ways in which it may help you to broaden the market for share ownership.

Now, if you have any questions we have with us several members of the original committee which spent months working on this Plan. They are George Zipp of DeCoppet & Doremus, Oliver Miles of Carlisle & Jacquelin, and John Haskell, Vice-President of the Exchange.

If you have any questions, please raise you hand and I'm sure these experts will be glad to supply the answers.

now beginning to earn a more satisfactory return, although for 1953 results would still be below what would be considered a fair and proper return on the capital invested in the business. I would calculate that a 6% return on a rate base estimated to be in the neighborhood of $105 million to $110 million, would permit earnings of around $2.50 per share. A continuation of the more recent trend of earnings will readily result in such a figure.

Even more important than the reattainment of satisfactory earnings, to my mind, was the approval by the New York State Public Service Commission of an automatic gas purchase cost adjustment, which gears the company's rates to the cost of its gas supplies, without time lag, and without the necessity of expensive rate cases. This should provide a better stability of earnings in the future, and should result in a better investor regard for the business.

Dividends in recent years have been on the liberal side, and there has been some indication here of a 75% payout policy. Should earnings as above indicated materialize, therefore, I would anticipate an increase in dividends from the present $1.50 annual rate, with as much as $1.80 per share a possibility. Since this common stock is by statistical standards a sound equity, the foregoing leads to the conclusion that the issue at recent prices of around 26½ (listed on the NYSE) affords an attractive opportunity for income and eventual appreciation.

*Continued from page 2*

# The Security I Like Best

tablished a remarkable record of growth as I have pointed out.

On the basis of an estimated $50 million of sales for 1953 the company should report substantial earnings. To a great extent, the per share amounts will depend on the "tax situation."

In conclusion I would like to draw attention to the fact that the company has a large backlog of orders, and that we can look for further expansion in net sales. The company has a very simple capital structure. It seems logical to assume that earnings on the common stock of Claude Neon will increase, in view of the growth factor, and a higher market price should result for this issue.

This issue is traded on the American Stock Exchange.

SIDNEY R. WINTERS
Partner, Abraham & Co., New York City
Members, New York Stock Exchange and Other Leading Exchanges

**Brooklyn Union Gas—Common Stock**

With the advent of natural gas in this area, the shares of manufactured gas companies turned in splendid market performances for a while. This, of course, was in anticipation of higher earnings and dividends, expected to be brought about by savings in costs through the use of natural gas. In many cases, however, the conversion of a system and the consumers' appliances from manufactured to natural gas, brought with it a series of new problems. And, until these were solved and surmounted, the expected profitability of natural gas failed to materialize — and the shares then generally reacted. As time passed on, and it became obvious that the problems were being solved, and earnings were finally improving, the shares renewed their upward trend. The Brooklyn Union Gas Co., and its common shares, followed this typical pattern fairly closely.


Sidney R. Winters

Brooklyn Union provides gas service to some 900,000 customers in most of Brooklyn and a large part of Queens, in New York City. The service area has a population of around 3,138,000. Residential sales provided 71% of 1952 revenues, commercial 19%, while the industrial and interruptible kind provided 10%. The company now receives its natural gas supplies from Transcontinental Gas Pipe Line under a 20-year contract, with current allocated deliveries of 90 million cubic feet daily, of which 80 million is firm and 10 million is temporary. Subject to Federal Power Commission approval, the company has contracted for an additional 25 million cubic feet daily from Tennessee Gas Transmission, and has also contracted for an additional 22 million cubic feet daily under a storage arrangement with Transcontinental. Costs to Brooklyn Union now average from around 37 cents per m.c.f. on a 65% load factor, to about 32 cents on a 100% load factor. The company is presently operating at close to 90%.

Although the company operates in a highly matured metropolitan service area, nevertheless a substantial load growth is projected with the development of space heating sales to be stimulated under the competitive costs permitted by the use of natural gas. Forecasts in this connection indicate a potential 40% load growth over the next few years. This augers well for profits since the character of the operation is such that a large part of the revenue derived from new business should flow through to net income.

Natural gas was first introduced into a small area of Brooklyn Union's territory in March of 1952. Progressively, other sections were brought in and the conversion was completed in August of 1952. It was obvious at the time that this year of changeover would be difficult. It was, and earnings available for the common stock declined to $1.83 per share from $2.24 per share earned in 1951. The real disappointment came in 1953, since at this point conversion to natural gas were complete. However, the problems of a new operation take time to iron out and for the first half of 1953 earnings continued to decline. Profits for that period were equal to only $1.45 per share compared with $1.89 per share earned in the first half of 1952 when the system was still largely a manufactured gas operation. It was not until after the middle of 1953 that it became apparent that the company had finally turned the corner and profits were trending upward once more.

The September quarter showed a nominal deficit of $0.04 per share compared to a deficit of $0.25 in the like 1952 period. And I now estimate that the fourth quarter of 1953 will show a profit of around $0.50 per share, and perhaps better, versus a profit of only $0.15 per share earned in the final 1952 quarter. Thus, although the full year statement for 1953 will show only a modest improvement over the 1952 result, the careful student will quickly observe the sharp improvement actually now taking place.

This improvement is in part attributable to interim rate relief granted the company in July which was calculated to offset increased gas costs. Thus, the company is

*Continued from page 14*

# Text of Eisenhower's Message Recommending Labor Law Changes

for the period of the contract can be completely frustrated. I recommend that the law be amended so as to protect both parties to a valid collective bargaining agreement from being required to negotiate during its term unless the contract so authorizes or both parties mutually consent.

**National Emergency Disputes**

The National Emergency provisions of the Act are essential to the protection of the National health and safety. As the Act is now written, the board of inquiry established to inquire into the facts of the dispute causing the emergency must report the facts to the President without recommendations. In order that the President may have the authority to require the board's recommendations, I recommend that after he has received and made available to the public the last report of the board of inquiry (if the dispute has not then been settled), he be empowered to reconvene the board and direct it to make recommendations to him for settlement of the dispute. Although the recommendations of the board would not be binding upon the parties, yet there is real value in obtaining the recommendations of informed and impartial men for the settlement of a dispute which imperils the national health and safety.

**Pre-Hiring Contracts**

Employees engaged in the construction, amusement and maritime industries have unique problems because their employment is usually casual, temporary or intermittent. I recommend that in these industries the employer be permitted to enter into a pre-hire contract with a union under which the union will be treated initially as the employees' representative for collective bargaining. I also recommend that in these industries the employer and the union be permitted to make a union-shop contract under which an employee, within seven days after the beginning of his employment, shall become a member of the union.

**Union Responsibility**

Under the Act as presently written, both unions and employers are made responsible for the actions of their agents. In order to make it clear that a union cannot be held responsible for an act of an individual member solely because of his membership in the union, I recommend that the Act be amended to make the traditional common law rules of agency applicable.

**Non-Communist Oath for Employers**

The Act presently provides that the facilities of the National Labor Relations Board are available only to those unions whose officials execute affidavits disclaiming membership in Communist organizations. The Communist disclaimer provisions are not presently applicable to employers. I recommend that they be made applicable. Specific proposals for legislation dealing with Communist infiltration generally are now under study. If such legislation is enacted, making the Communist disclaimer provisions of the Act unnecessary, I then will recommend that they be entirely eliminated.

The right of free speech is fundamental. Congress should make clear that the right of free speech, as now defined in the Act, applies equally to labor and management in every aspect of their relationship.

**Union Pension Plans**

The Act presently prohibits an employer from making payment to a union to assist in the financing of union welfare funds unless the fund meets certain standards. These standards are not adequate to protect and conserve these funds that are held in trust for the welfare of individual union members. It is my recommendation that Congress initiate a thorough study of welfare and pension funds covered by collective bargaining agreements, with a view of enacting such legislation as will protect and conserve these funds for the millions of working men and women who are the beneficiaries.

**State's Jurisdiction**

The Act should make clear that the several states and territories, when confronted with emergencies endangering the health or safety of their citizens, are not, through any conflict with the Federal law, actual or implied, deprived of the right to deal with such emergencies. The need for clarification of jurisdiction between the Federal and the State and Territorial governments in the labor-management field has lately been emphasized by the broad implications of the most recent decision of the Supreme Court dealing with this subject. The Department and agency heads concerned are, at my request, presently examining the various areas in which conflicts of jurisdiction occur. When such examination is completed, I shall make my recommendations to the Congress for corrective legislation.

**Employee Strike Vote**

In the employer-employee relationship there is nothing which so vitally affects the individual employee as the loss of his pay when he is called on strike. In such an important decision he should have an opportunity to express his free choice by secret ballot held under government auspices.

**The Check-Off Requirement**

There are two other changes in the law that I recommend. The authorization which an individual employee gives to his employer for the check-off of the employee's union dues should be made valid until the termination of the collective bargaining contract which provides for such check-off, unless the employee sooner revokes such authorization. The provision of the Act which require reports from unions concerning their organization and finances should be simplified so as to eliminate duplication in the information required by such reports.

**Congressional Action Urged**

I hope that the foregoing changes will be enacted by Congress promptly, for they will more firmly establish the basic principles of the law. The appropriate Committees of the Congress will, I am certain, wish to keep the law under continuous study and in the light of experience under it propose further amendments to implement its objectives and constantly improve its administration.

Government should continue to search diligently for sound measures to improve the lot of the working man and woman, mindful that conditions and standards of employment change as the products, habits and needs of men and women change. It will be continually a challenge to government to sense the aspirations of the working people of our country, that all may have the opportunity to fairly share in the results of the productive genius of our time, from which comes the material blessings of the present and a greater promise for the future.

DWIGHT D. EISENHOWER
The White House,
Jan. 11, 1954.

## Hooker & Fay Adds

(Special to The Financial Chronicle)

SAN FRANCISCO, Calif.—Marvin Wong is now with Hooker & Fay, 340 Pine Street, members of the New York and San Francisco Stock Exchanges. He was previously with Davies & Co. and Stone & Youngberg.

## Merrill Lynch Adds

(Special to The Financial Chronicle)

SAN FRANCISCO, Calif.—William A. Rhea is with Merrill Lynch, Pierce, Fenner & Beane, 301 Montgomery Street.

## W. E. Conly Opens

(Special to The Financial Chronicle)

LONGMONT, Colo.—William E. Conly, Jr. is engaging in a securities business from offices at 518½ North Main Street.

## With Harris, Upham & Co.

DENVER, Colo. — William L. Pfeiffer is with Harris, Upham & Co., 740 Seventeenth Street.

# Securities Now in Registration

★ INDICATES ADDITIONS SINCE PREVIOUS ISSUE
• ITEMS REVISED

**• A & B Commercial Finishing Co., Inc. (1/15)**
Dec. 18 (letter of notification) 120,000 shares of class A common stock. **Price**—At par ($1 per share). **Proceeds**—For equipment and working capital. **Office**—728 South Wheeling, Tulsa, Okla. **Underwriter**—White & Co., Tulsa, Okla., and St. Louis, Mo. **Offering**—Expected in Oklahoma only.

**★ Aeronca Manufacturing Corp., Middletown, Ohio**
Jan. 11 (letter of notification) 8,000 shares of common stock (par $1) to be issued in exchange for all the assets (approximately $120,500) and liabilities ($100,500) of Robb Manufacturing Co., Inc., Pittsburgh, Pa. Present market value of Aeronca's stock, $2.50 per share. **Underwriter**—None.

**★ Affiliated Fund, Inc., New York**
Jan. 12 filed 4,000,000 shares of capital stock. **Price**—At market. **Proceeds**—For investment. **Underwriter**—None.

**★ Alpha Instrument Co., Inc., Washington, D. C.**
Jan. 8 (letter of notification) 200 shares of $4 cumulative preferred stock (no par). **Price**—$50 per share. **Proceeds**—For plant expansion and working capital. **Office**—1213 20th St. N. W., Washington 6, D. C. **Underwriter**—None.

**Amalgamated Growth Industries, Inc.**
Sept. 28 (letter of notification) 149,999 shares of common stock (par 10 cents). **Price**—$2 per share. **Proceeds**—For acquisition of patents, etc., and for new equipment and working capital. **Office**—11 West 42nd St., New York City. **Underwriter**—R. A. Keppler & Co., Inc., New York, N. Y.

**American Diamond Mining Corp.**
Dec. 8 (letter of notification) 260,000 shares of common stock (par $1). **Price**—$1.15 per share. **Proceeds**—To explore and develop the Murfreesboro, Pike County, Ark., property and for general corporate purposes. **Office**—99 Wall St., New York 5, N. Y. **Underwriter**—Samuel W. Gordon & Co., Inc., New York, N. Y.

**Armstrong Rubber Co.**
Nov. 27 (letter of notification) 1,000 shares of class A common stock (no par). **Price**—$21 per share. **Proceeds**—To James A. Walsh, the selling stockholder. **Underwriter**—Gruntal & Co., New Haven, Conn.

**★ Army-Navy House, Inc., Philadelphia, Pa.**
Jan. 6 (letter of notification) 4,000 shares of 6% cumulative preferred stock. **Price**—At par ($10 per share). **Proceeds**—For fixed assets and general organizational expenses. **Address**—c/o Robert W. Lees, 616 Harrison Bldg., Philadelphia 2, Pa. **Underwriter**—None.

**Automobile Banking Corp. (1/25-29)**
Dec. 28 filed 61,000 shares of series B 6% cumulative convertible preferred stock. **Price** — At par ($10 per share). **Proceeds**—To increase working capital. **Underwriters** — Bioren & Co. and H. G. Kuch & Co., both of Philadelphia, Pa.

**• Aztec Oil & Gas Co., Dallas, Tex. (1/15)**
Dec. 14 filed 2,017,801 shares of common stock (par $1) to be offered for subscription by common stockholders of Southern Union Gas Co. of record Dec. 28, 1953 on the basis of one share of Aztec for each Southern Union common share held; rights to expire on Feb. 8. **Price**—$3.83 per share. **Proceeds**—To acquire equipment and property, for drilling wells and for working capital. **Underwriter**—None.

**★ Bank Shares, Inc., Minneapolis, Minn.**
Jan. 4 (letter of notification) 15,000 shares of class A stock. **Price**—At par ($20 per share). **Proceeds**—To acquire shares of capital stock of The Marquette National Bank and the Chicago-Lake State Bank. **Underwriter**—M. H. Bishop & Co., Minneapolis, Minn.

**Basin Natural Gas Corp., Santa Fe, N. M.**
Dec. 23 (letter of notification) 748,000 shares of common stock (par five cents). **Price**—40 cents per share. **Proceeds**—To acquire properties and leases. **Office** — Blatt Bldg., Santa Fe, N. M. **Underwriter**—Hunter Securities Corp., New York.

**★ Blaske Lines, Inc., Alton, Ill.**
Jan. 7 (letter of notification) 65,990 shares of common stock (par $2), to be first offered for subscription by stockholders; then to public. **Price**—$2.62½ per share. **Proceeds**—For down payment on purchase of six new barges. **Office**—210 William St., Alton, Ill. **Underwriter**—G. H. Walker & Co., St. Louis, Mo.

**★ Capital Bakers, Inc., Harrisburg, Pa.**
Jan. 11 (letter of notification) $30,000 of general 4% non-convertible debenture bonds to be offered to employees. **Price**—At par (in units of $50 each). **Proceeds**—For equipment and working capital. **Underwriter**—None.

**• Chemical Enterprises, Inc., New York (1/21)**
Dec. 21 filed 350,000 shares of common stock (par 25 cents). **Price**—To be supplied by amendment (probably around $10 per share). **Proceeds**—To repay bank loan, to acquire capital stock of nine Louisiana companies and to expand their ammonia storage and distributing facilities. **Underwriter**—Lee Higginson Corp., New York.

**Cherokee Industries, Inc., Oklahoma City, Okla.**
Dec. 3 filed 5,000,000 shares of class B non-voting common stock (par one cent). **Price**—$1 per share. **Proceeds**—To construct mill. **Underwriter**—None.

**Clary Multiplier Corp., San Gabriel, Calif.**
Dec. 23 (letter of notification) 16,000 shares of common stock (par $1). **Price**—$6.25 per share, or last sale price on the Los Angeles Stock Exchange preceding date of sale, whichever is lower. **Proceeds**—For working capital. **Office** — 408 Junipero St., San Gabriel, Calif. **Underwriter**—None.

**★ Colorado Mineral Refining Co., Inc.**
Jan. 6 (letter of notification) 20,000 shares of common stock (no par). **Price** — $1 per share. **Proceeds** — For equipment and operating capital. **Office** — 1020 Yuma St., Denver, Colo. **Underwriter**—None.

**Colorado Oil & Gas Corp., Denver, Colo. (1/26)**
Jan. 5 filed 1,000,000 shares of common stock (par $3). **Price**—To be supplied by amendment. **Proceeds**—To retire $500,000 5% 3-year notes due Sept. 21, 1956, and to acquire and develop oil and gas properties. **Underwriter**—Union Securities Corp., New York.

**★ Commonwealth Edison Co. and Northern Illinois Gas Co. (1/27)**
Jan. 7 filed $60,000,000 of Commonwealth Edison Co. "gas divisional lien bonds due Jan. 1, 1979" which bonds will become Northern Illinois Gas Co. first mortgage bonds due Jan. 1, 1979. **Price**—To be supplied by amendment. **Proceeds**—To pay Commonwealth Edison Co. for acquisition of gas and heating properties by Northern Illinois Gas Co. **Underwriters**—The First Boston Corp., New York; Halsey, Stuart & Co. Inc., Chicago and New York; and Glore, Forgan & Co., Chicago and New York.

**★ Constant Minerals Separation Process, Inc., Reno, Nev.**
Jan. 4 (letter of notification) 1,000,000 shares of class A non-voting capital stock (par 10 cents). **Price**—20 cents per share. **Proceeds**—For expenses incidental to gold mining. **Office**—530 Calornia Ave., Reno, Nev. **Underwriter**—None.

**• Consumers Power Co., Jackson, Mich.**
Dec. 3 filed 679,436 shares of common stock (no par) being offered for subscription by common stockholders of record Jan. 7, 1954 on the basis of one new share for each 10 shares held; rights to expire on Jan. 22. Unsubscribed shares will be offered first to employees. **Price**—$36.75 per share. **Proceeds**—For construction program. **Underwriters**—Harriman Ripley & Co., Inc. and The First Boston Corp. (jointly).

**★ CorpAmerica, Inc., Wilmington, Del.**
Dec. 29 (letter of notification) 20,000 shares of class A non-voting common stock (par $10), of which 7,819 shares are to be offered to class A stockholders pro rata and the unsold balance, plus 12,181 shares are to be sold to public. **Price**—$15 per share. **Proceeds**—For working capital. **Office** — 1901 W. Fourth St., Wilmington, Del. **Underwriter** — Laird, Bissell & Meeds, Wilmington, Delaware.

**Danielson Manufacturing Co.**
Dec. 24 (letter of notification) 10,704 shares of class A preferred stock (par $5) to be offered for subscription by stockholders. **Price**—$9.50 per share. **Proceeds**—For



## NEW ISSUE CALENDAR

**January 15 (Friday)**
A. & B. Com'l Finishing Co., Inc. Class A Common
(White & Co.) $120,000
Aztec Oil & Gas Co. ---- Common
(Offering to stockholders of Southern Union Gas Co. —no underwriter) 2,055,977 shares
Ohio Edison Co. ---- Common
(Offering to stockholders—bids 11 a.m. EST) 527,830 shs.
Saint Anne's Oil Production Co. ---- Common
(Sills, Fairman & Harris) $800,000

**January 18 (Monday)**
Fire Association of Philadelphia ---- Common
(Offering to stockholders—The First Boston Corp. will act as advisors) $7,650,000
Ritter Finance Co, Inc. ---- Debentures
(Stroud & Co., Inc.) $1,000,000

**January 19 (Tuesday)**
General Telephone Co. of California ---- Preferred
(Mitchum, Tully & Co. and Paine, Webber, Jackson & Curtis) $4,000,000
Great Northern Ry. ---- Equip. Trust Ctfs.
(Bids noon EST) $5,070,000
Iowa-Illinois Gas & Electric Co. ---- Preferred
(Bids 10 a.m. CST) $4,000,000
Ohio Edison Co. ---- Bonds
(Bids 11 a.m EST) $30,000,000
Trion, Inc. ---- Common
(Reed, Lear & Co.) $94,600
Western Casualty & Surety Co. ---- Common
(Kidder, Peabody & Co. and Prescott, Wright, Snider Co.) 150,000 shares

**January 20 (Wednesday)**
Harris-Seybold Co. ---- Common
(McDonald & Co.) 50,577 shares
Michigan Consolidated Gas Co. ---- Bonds
(Bids 10:30 a.m. EST) $20,000,000
Northern Indiana Public Service Co. ---- Common
(Offering to stockholders—Central Republic Co., Inc., Blyth & Co., Inc. and Merrill Lynch, Pierce, Fenner & Beane) 318,000 shares

**January 21 (Thursday)**
Chemical Enterprises, Inc. ---- Common
(Lee Higginson Corp.) 350,000 shares

**January 25 (Monday)**
Automobile Banking Corp. ---- Preferred
(Bioren & Co. and H. G. Kuch & Co.) $610,000
Otter Tail Power Co. ---- Debentures
(Blyth & Co., Inc.) $2,500,000

**January 26 (Tuesday)**
Colorado Oil & Gas Co. ---- Common
(Union Securities Corp.) 1,000,000 shares

**January 27 (Wednesday)**
Commonwealth Edison Co. ---- Bonds
(The First Boston Corp.; Halsey, Stuart & Co. Inc.; and Glore, Forgan & Co.) $60,000,000
Northern Illinois Gas Co. ---- Bonds
(The First Boston Corp.; Halsey, Stuart & Co. Inc.; and Glore, Forgan & Co.) $60,000,000

**January 28 (Thursday)**
Southern Pacific Co. ---- Equip. Trust Ctfs.
(Bids noon EST) $9,660,000

**February 1 (Monday)**
Gulf Sulphur Corp. ---- Preferred
(Peter Morgan & Co.) $7,000,000

**February 2 (Tuesday)**
Mississippi Power & Light Co. ---- Preferred
(Bids noon EST) $6,000,000
Southwestern Public Service Co. ---- Common
(Offering to stockholders—underwritten by Dillon, Read & Co. Inc.) 272,500 shares

**February 3 (Wednesday)**
Pennsylvania RR. ---- Equip. Trust Ctfs.
(Bids noon EST) $5,300,000

**February 10 (Wednesday)**
Mystic Valley Gas Co. ---- Bonds
(Bids noon EST) $5,500,000

**February 16 (Tuesday)**
Louisville Gas & Electric Co. ---- Bonds
(Bids to be invited) $12,000,000
Public Service Co. of Oklahoma ---- Bonds
(Bids to be invited) $12,500,000

**February 17 (Wednesday)**
Essex County Electric Co. ---- Bonds
(Bids to be invited) $5,000,000

**February 25 (Thursday)**
Pittsburgh & West Virginia Ry. ---- Bonds
(Bids to be invited) $7,500,000

**March 3 (Wednesday)**
Suburban Electric Co. ---- Bonds
(Bids to be invited) $4,000,000

**March 16 (Tuesday)**
Alabama Power Co. ---- Bonds
(Bids to be invited) $17,000,000
National Union Fire Insurance Co. ---- Common
(The First Boston Corp.) $6,000,000

**April 6 (Tuesday)**
Georgia Power Co. ---- Bonds
(Bids to be invited) $11,000,000

working capital. **Underwriter**—Coburn & Middlebrook, Inc., Hartford, Conn.

**Decca Records, Inc.**
Dec. 22 filed 145,842 shares of capital stock (par 50 cents) to be issued only in exchange for shares of Universal Pictures Co., Inc. common stock (par $1).

**Detroit Edison Co.**
Dec. 10 filed $43,358,000 3¼% convertible debentures due Feb. 1, 1969 to be offered for subscription by stockholders of record Jan. 6, 1954, on the basis of $100 of debentures for each 25 shares of stock held; rights to expire on Feb. 1, 1954. **Price**—At par (flat). **Proceeds**—To repay bank loans and for new construction. **Underwriter**—None.

**Douglas Oil Co. of California**
Dec. 28 (letter of notification) 14,200 shares of common stock (par $1). **Price**—At market. **Proceeds**—To Woodrow G. Krieger, President of company. **Underwriter**—Shearson, Hammill & Co., Los Angeles, Calif.

**Federal Electric Products Co.**
Dec. 17 (letter of notification) 10,000 shares of common stock (par $1). **Price**—Aggregate offering price will not exceed $100,000. **Proceeds**—To Estelle M. Cole, who is the selling stockholder. **Office**—50 Paris Street, Newark, N. J. **Underwriter**—H. M. Byllesby & Co. (Inc.), Chicago and New York.

**Federal Pipe & Foundry Co. (N. J.)**
Nov. 16 (letter of notification) 39,000 shares of common stock (par 25 cents). **Price**—$1 per share. **Proceeds**—For purchase of land and machinery, to erect buildings and for working capital. **Underwriter**—A. Kalb & Co., 325 Market St., Trenton, N. J.

★ **Financial Fund Inc., Seattle, Wash.**
Jan. 8 filed 25,000 shares of common stock. **Price**—At market. **Proceeds**—For investment. **Underwriter**—None.

**Fire Association of Philadelphia (Pa.) (1/18)**
Dec. 11 filed 340,000 shares of capital stock (par $10) to be offered for subscription by stockholders of record Jan. 18 on the basis of one new share for each share held; rights to expire on Feb. 17. **Price**—$22.50 per share. **Proceeds**—To increase capital and surplus. **Meeting**—Stockholders will vote Jan. 14 on increasing authorized number of shares from 360,000 to 800,000. **Underwriter**—None, but The First Boston Corp., New York, will act as advisors to the company.

**Florida Telephone Corp., Ocala, Fla.**
Dec. 30 (letter of notification) 24,975 shares of common stock (par $10) to be offered first for subscription by common stockholders. **Price**—$10.75 per share to stockholders, and $12 per share to public. **Proceeds**—For new construction, etc. **Underwriter**—None.

**Florida Western Oil Co.**
Nov. 6 (letter of notification) 250,000 shares of common stock (par 10 cents). **Price**—$1 per share. **Proceeds**—For drilling test well. **Office**—803 N. Calhoun St., Tallahassee, Fla. **Underwriter** — Floyd D. Cerf, Jr., Co., Inc., Miami, Fla.

★ **Frontier Industries, Inc.**
Jan. 4 (letter of notification) 3,000 shares of common stock (par 50 cents) to be offered for subscription to employees of company and its subsidiaries. **Price**—At 95% of market price at time of issuance (about $14.75 per share). **Proceeds**—For working capital. **Office**—70 Niagara St., Buffalo 2, N. Y. **Underwriter**—None.

**General Hydrocarbons Corp.**
Aug. 12 filed $1,010,800 of 20-year debentures and 66,424 shares of common stock (par $1) to be offered in units of $350 principal amount of debentures and 23 shares of stock. **Price**—$359 per unit ($336 for the debentures and $1 per share for the stock). **Proceeds**—For general corporate purposes. **Business** — Oil and gas development. **Underwriter**—None. **Office**—Oklahoma City, Okla.

● **General Telephone Co. of California (1/19)**
Dec. 28 filed 200,000 shares of 5% cumulative preferred stock, 1947 series (par $20). **Price**—To be supplied by amendment. **Proceeds**—To repay bank loans and for new construction. **Underwriters**—Mitchum, Tully & Co., San Francisco, Calif., and Paine, Webber, Jackson & Curtis, Boston, Mass.

**Greenwich Gas Co., Greenwich, Conn.**
Nov. 12 filed 75,468 shares of common stock (no par) to be first offered for subscription by the holders of the 89,333 shares presently outstanding for a 10-day standby; then to public. **Price**—To be supplied by amendment. **Proceeds**—From sale of stock, together with proceeds from private sale of $200,000 of series A bonds, to be used to repay bank loans and for construction program. **Underwriter**—F. L. Putnum & Co., Inc., Boston, (Mass.) and Providence (R. I.).

**Guardian Chemical Corp.**
Nov. 30 (letter of notification) 52,500 shares of common stock (par 10 cents) to be issued to warrant holders. **Price**—$2.37½ per share. **Proceeds**—To selling stockholders. **Office**—10-15 43rd Ave., Long Island City, N. Y. **Underwriter**—Batkin & Co., New York.

★ **Guardian Mutual Fund, Inc., New York**
Jan. 11 filed 60,000 shares of common stock. **Price**—At market. **Proceeds**—For investment. **Underwriter**—None.

● **Gulf Sulphur Corp. (2/1-5)**
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.

**Harris-Seybold Co., Cleveland, Ohio (1/20)**
Dec. 30 filed 49,605 shares of common stock (par $1) to be offered for subscription by common stockholders of record Jan. 19, 1954, on the basis of one new share for each seven shares held; rights to expire on Feb. 1, 1954. **Price**—To be supplied by amendment (to be somewhat below the market price). **Proceeds**—To reimburse company's treasury for its investment in C. B. Cottrell & Sons Co., and for general corporate purposes. **Underwriter**—McDonald & Co., Cleveland, O.

**Hydrocap Eastern, Inc., Philadelphia, Pa.**
Oct. 30 (letter of notification) 100,000 shares of common stock. **Price**—At par ($1 per share). **Proceeds**—To pay debt and for working capital, etc. **Underwriter**—Barham & Co., Coral Gables, Fla.

★ **Hyer (C. H.) & Sons, Inc., Olathe, Kan.**
Jan. 4 (letter of notification) 9,000 shares of common stock (par $10). **Price**—Initially at $15.90 per share (thereafter at book value as determined as of the last day of the previous calendar quarter). **Proceeds**—For working capital. **Office**—111 North Chestnut St., Olathe, Kan. **Underwriter**—None.

**Iowa-Illinois Gas & Electric Co. (1/19)**
Dec. 14 (letter of notification) 40,000 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: The First Boston Corp.; Lehman Brothers; Blyth & Co., Inc.; Kuhn, Loeb & Co.; Glore, Forgan & Co.; Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly); Harriman Ripley & Co. Inc.; Salomon Bros. & Hutzler. **Bids**—Expected to be received up to 10 a.m. (CST) on Jan. 19.

★ **Kiefner (Charles E.), Inc., Spokane, Wash.**
Dec. 29 (letter of notification) 300 shares of preferred stock (par $100) and 150 shares of common stock (par $100) to be offered in units of two shares of preferred stock and one share of common stock. **Price**—$300 per unit. **Proceeds**—For acquisition of contracts, notes and mortgages. **Office** — 1217 Old National Bank Bldg., Spokane, Wash. **Underwriter**—None.

**King Oil Co., Salt Lake City, Utah**
Dec. 28 (letter of notification) 800,000 shares of capital stock. **Price**—25 cents per share. **Proceeds**—For drilling expenses. **Office**—28 West Second South, Salt Lake City, Utah. **Underwriter**—None.

**Magnolia Park, Inc., New Orleans, La.**
Dec. 29 (letter of notification) 300,000 shares of common stock (par 10 cents). **Price**—$1 per share. **Proceeds**—For work on harness race track in Louisiana and for working capital. **Office**—National Bank of Commerce Bldg., New Orleans, La. **Underwriters** — Gearhart & Otis, Inc. and Hunter Securities Corp., both of New York; and T. J. Feibleman & Co., New Orleans, La.

**Medina Oil Corp., Orlean, N. Y.**
Dec. 9 (letter of notification) 2,800 shares of common stock. **Price**—At par ($100 per share). **Proceeds**—To purchase drill rig, etc. **Office** — 10 East Corydon St., Bradford, Pa. **Underwriter** — Winner & Myers, Lock Haven, Pa.

**Merritt-Chapman & Scott Corp., New York**
Dec. 31 filed 513,594 shares of common stock (par $12.50) to be offered in exchange for 1,078,546.25 shares of authorized and issued common stock (par $1) of Newport Steel Corp. at rate of one share of Merritt-Chapman stock for each 2.1 shares of Newport stock. **Underwriter**—None.

**Michigan Consolidated Gas Co. (1/20)**
Dec. 28 filed (by amendment) $20,000,000 first mortgage bonds, dated Jan. 15, 1954 and due on Jan. 15, 1979. **Proceeds** — To repay $20,000,000 3¼% bank loan notes due July 30, 1954, issued to provide temporary financing for additions to the company's utility plant. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; White, Weld & Co. and Lehman Brothers (jointly); Smith, Barney & Co. and Blyth & Co., Inc. (jointly); Harriman Ripley & Co. Inc. and Union Securities Corp. (jointly). On June 15, 1953, a group headed by Halsey, Stuart & Co. Inc., Harriman Ripley & Co. Inc., and Union Securities Corp. bid 100.125% for the issue as 5s. It was rejected. **Bids**—Tentatively expected to be received up to 10:30 a.m. (EST) on Jan. 20 at 415 Clifford St., Detroit 26, Mich.

★ **Mines Prospecting & Exploration Co.**
Jan. 8 (letter of notification) 350,000 shares of non-assessable common stock (par one cent). **Price**—10 cents per share. **Proceeds** — For general mining expenses. **Office**—218 Radio Central Bldg., Missoula, Mont. **Underwriter**—None.

★ **Mississippi Chemical Corp., Yazoo City, Miss.**
Jan. 5 filed 26,666 shares of special common stock (par $75—limited dividend) and $1,500,000 of certificates of participation (to be sold in multiples of $75—5% interest). **Proceeds**—From sale of these securities, together with bank borrowings, are to be used for expansion of facilities. **Underwriter**—None. Sales will be handled by company employees.

★ **Mississippi Power & Light Co. (2/2)**
Jan. 7 filed 60,000 shares of cumulative preferred stock (par $100). **Proceeds**—For additions and improvements. **Underwriters**—To be determined by competitive bidding. Probable bidders: Union Securities Corp.; Lehman Brothers; W. C. Langley & Co. and The First Boston Corp. (jointly); Blyth & Co., Inc., Equitable Securities Corp., Shields & Co., White, Weld & Co. and Kidder, Peabody & Co. (jointly). **Bids**—Tentatively expected to be received up to noon (EST) on Feb. 2.

**Montex Oil & Gas Corp., Baytown, Tex.**
Dec. 21 (letter of notification) 100,000 shares of common stock (par one cent). **Price**—15 cents per share. **Proceeds**—To underwriter, I. J. Schenin Co., New York.

★ **Mystic Valley Gas Co. (2/10)**
Jan. 12 filed $5,500,000 first mortgage bonds, series A, due 1974. **Proceeds**—To pay an equal amount of outstanding promissory notes. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; Lehman Brothers; Merrill Lynch, Pierce, Fenner & Beane and Union Securities Corp. (jointly). **Bids**—Tentatively expected to be received on or about Feb. 10.

**New Bristol Oils, Ltd., Toronto, Ont., Canada**
Dec. 18 filed 1,000,000 shares of common stock (par $1). **Price**—To be related to the bid price of the shares on the Toronto Stock Exchange, with a 20% underwriting commission. **Proceeds**—For general corporate purposes. **Underwriter**—To be named by amendment.

**New England Gas & Electric Association**
Dec. 10 filed 32,126 common shares of beneficial interest (par $8) being offered in exchange for common stock of New Bedford Gas & Edison Light Co. held by minority stockholders on the basis of 4¾ New England shares for each New Bedford share held. The offer will expire on Feb. 23. **Financial Advisor**—The First Boston Corp., New York.

★ **Northern Illinois Gas Co. (1/27)**
See Commonwealth Edison Co. above.

**Northern Indiana Public Service Co. (1/20)**
Jan. 5 filed 318,000 shares of common stock (no par) to be offered for subscription by stockholders of record Jan. 8 at rate of one new share for each ten shares then held; rights to expire about Feb. 3. **Price**—To be supplied by amendment. **Proceeds**—For construction program. **Underwriters**—Central Republic Co., Inc., Chicago, Ill., and Blyth & Co., Inc. and Merrill Lynch, Pierce, Fenner & Beane of New York.

● **Ohio Edison Co. (1/15)**
Dec. 10 filed 527,830 shares of common stock (par $12) to be offered for subscription by common stockholders of record Jan. 14, 1954 on the basis of one new share for each 10 shares held (with an oversubscription privilege); rights will expire on Jan. 29, 1954. **Price** — $35.75 per share. **Proceeds** — For construction program. **Underwriters**—White, Weld & Co.

**Ohio Edison Co. (1/19)**
Dec. 10 filed $30,000,000 of first mortgage bonds due 1984. **Proceeds** — For property additions, etc. **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**—To be received up to 11 a.m. (EST) on Jan. 19.

★ **Oro Flame Mining Co., Phoenix, Ariz.**
Jan. 11 (letter of notification) $25,000 of registered three-year notes payable on or before Dec. 31, 1956 (convertible at rate of $2 principal amount of notes for one share of common stock); and 25,000 shares of common stock to be issued on the basis of one share for each $1 of indebtedness so cancelled by the six directors of the company. **Price**—Of notes, at face amount; of stock, $1 per share. **Proceeds** — For development of mining properties and payment of current indebtedness. **Office**—1217 West Jefferson St., Phoenix, Ariz. **Underwriter**—None.

● **Otter Tail Power Co., Fergus Falls, Minn. (1/25)**
Dec. 28 filed $2,500,000 of 4¼% convertible debentures due Jan. 1, 1964, to be offered for subscription by common stockholders of record Jan. 22, 1954, on the basis of $100 of debentures for each 25 shares of stock then held rights to expire on Feb. 8. **Price**—100% of principal amount. **Proceeds**—To retire bank loans and for capital expenditures. **Underwriter**—Blyth & Co., Inc., New York and San Francisco.

★ **Ozel Oil Co., Washington, D. C.**
Jan. 7 (letter of notification) 1,000 shares of capital stock (no par). **Price**—$100 per share. **Proceeds**—For drilling, equipment and related expenses. **Office** — 909 Dupont Circle Bldg., Washington 6, D. C. **Underwriter**—None.

**Perfecting Service Co., Charlotte, N. C.**
Dec. 28 (letter of notification) 15,001 shares of common stock to be offered for subscription by present stockholders. **Price**—At par ($10 per share). **Proceeds**—For working capital and general corporate purposes. **Office**—332 Atando Ave., Charlotte, N. C. **Underwriter**—R. S. Dickson & Co., Charlotte, N. C., for up to a maximum of 8,001 shares.

★ **Radon Reseach Corp., Boulder, Mont.**
Jan. 4 (letter of notification) 100,000 shares of common stock (par 10 cents). **Price**—25 cents per share. **Proceeds**—For general office and mining expenses. **Underwriter**—None.

● **Ritter Finance Co., Inc. (Pa.) (1/18-29)**
Dec. 24 filed $1,000,000 of 5½% debentures due 1966, and 12-year warrants to purchase 100,000 shares of class B common stock, to be offered in units of one $1,000 debenture and a warrant to purchase 100 shares; and 2,099 shares of 5½% cumulative preferred stock (par $50) and 20,990 shares of class B common stock (par $1) to be offered in units of one share of preferred and 10 shares of class B common stock. **Price**—For units of debentures and warrants, $1,000 per unit; and for units of preferred and class B stock, $65 per unit. **Proceeds**—For working capital and other corporate purposes. **Underwriter**—For debentures and warrants, Stroud & Co., Inc., Philadelphia, Pa. For stock units, none. **Offering**—Expected the week of Jan. 18 or 25.

● **Saint Anne's Oil Production Co. (1/15-18)**
April 23 filed 160,000 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.

★ **Schoonover Oil Development Co., Bismarck, N. D.**
Dec. 28 (letter of notification) 6,000 shares of common stock. **Price**—At par ($1 per share). **Proceeds**—For de-

*Continued on page 44*

Continued from page 43

velopment of well. **Address**—Box 421, Bismarck, N. D. **Underwriters**—H. G. Schoonover and Lina M. Kurtz.

★ **Southwestern Public Service Co. (2/2)**
Jan. 12 filed 272,500 shares of common stock (par $1) to be offered for subscription by common stockholders of record Feb. 1 at the rate of one new share for each 14 shares held; rights to expire about Feb. 16. **Price**—To be supplied by amendment. **Proceeds**—To repay bank loans and for property additions and improvements. **Underwriter**—Dillon, Read & Co. Inc., New York.

**Snoose Mining Co., Hailey, Idaho**
Oct. 30 (letter of notification) 1,000,000 shares of common stock. **Price**—At par (25 cents per share). **Proceeds**—For machinery and equipment. **Underwriter**—E. W. McRoberts & Co., Twin Falls, Idaho.

★ **Stone Corp. of America, Inc.**
Jan. 7 (letter of notification) 99,000 shares of common stock (par 20 cents). **Price**—$3 per share. **Proceeds**—For working capital, etc. **Business**—Manufactures artificial compound which simulates stone under trade name "Pura-Tex Stone." **Office** — 705 Arnold Ave., Point Pleasant, N. J. **Underwriter**—None.

**Theatre 200, Inc., N. Y. City**
Dec. 10 filed 5,000 shares of preferred stock (no par) and 15,000 shares of common stock (par one cent) to be offered in units of 25 shares of preferred and 75 shares of common stock. **Price**—$2,500 per unit. **Proceeds**—For working capital, etc. **Underwriter**—None.

**Three States Uranium Corp.**
Nov. 13 (letter of notification) 2,000,000 shares of common stock (par one cent). **Price**—15 cents per share. **Proceeds** — For drilling, surveys and working capital. **Office**—354 Main St., Grand Junction, Colo. **Underwriter** Tellier & Co., Jersey City, N. J. **Offering**—Not expected until late in February, 1954.

**Trion, Inc., McKees Rocks, Pa. (1/19)**
Jan. 4 (letter of notification) 23,650 shares of common stock (par 50 cents). **Price**—$4 per share. **Proceeds**—To three selling stockholders. **Business**—Manufactures and sells electric air filters. **Underwriter**—Reed, Lear & Co., Pittsburgh 19, Pa.

**United Merchants & Manufacturers, Inc.**
Oct. 7 filed 574,321 shares of common stock (par $1). **Price**—At the market (either on the New York Stock Exchange or through secondary distributions). **Proceeds**—To a group of selling stockholders who will receive the said shares in exchange for outstanding preferred and common stock of A. D. Juilliard & Co., Inc., on the basis of 6½ shares of United Merchants stock for each Juilliard common or preferred share. **Underwriter** — None. Statement effective Oct. 26.

**Wallace Container Co.**
Dec. 18 (letter of notification) 75,000 shares of class A common stock. **Price**—At par ($4 per share). **Proceeds**—To expand facilitiees. **Office**—5862-68 Croker Street, Los Angeles, Calif. **Underwriters**—The First California Co., Inc., Bateman, Eichler & Co. and Lester, Ryons & Co., all of Los Angeles, Calif.

**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.

**Western Casualty & Surety Co. (1/19)**
Dec. 29 filed 150,000 shares of common stock (par $5) to be offered for subscription by stockholders on or about Jan. 19, 1954, on the basis of one new share for each two shares held; rights to expire on Feb. 1, 1954. Western Insurance Securities Co., the parent, which owns 92% of the presently outstanding common stock, will not subscribe for any stock. **Price**—To be supplied by amendment. **Proceeds** — For working capital, etc. **Office**—Fort Scott, Kansas. **Underwriters**—Kidder, Peabody & Co., New York, and Prescott, Wright, Snider Co., Kansas City, Mo.

**Western Empire Petroleum Co., Ogden, Utah**
Oct. 22 (letter of notification) 3,000,000 shares of common stock (par 10 cents). **Price**—5 cents per share. **Proceeds** — For additional working capital, to acquire leases, drill well, etc. **Office**—812 Eccles Bldg., Ogden, Utah. **Underwriter** — Samuel B. Franklin & Co., Los Angeles, Calif.

★ **Wilhelmina Adams, Inc., Washington, D. C.**
Jan. 11 (letter of notification) 4,500 shares of common stock (no par). **Price**—$10 per share. **Proceeds**—For expansion and working capital. **Office**—3214 P St. N. W., Washington, D. C. **Underwriter**—None.

**Wilson Organic Chemicals, Inc. (N. J.)**
Dec. 14 (letter of notification) 15,000 shares of common stock (par $1). **Price**—2.12½ per share. **Proceeds**—To underwriter. **Underwriter**—Graham, Ross & Co., New York.

**Woonsocket Rubber & Plastics Products Co., Inc.**
Dec. 29 (letter of notification) 100,000 shares of common stock (par $2.50). **Price**—$3 per share. **Proceeds**—For payment on note and for working capital. **Office**—212 Clinton St., Woonsocket, R. I. **Underwriter**—Barrett & Co., Providence, R. I.

**Wyoming Oil Co., Denver, Colo.**
Nov. 3 (letter of notification) 5,000,000 shares of common stock (par five cents). **Price**—5½ cents per share. **Proceeds** — For drilling expenses. **Office** — 301 Kittredge Bldg., Denver, Colo. **Underwriter** — Robert W. Wilson, Denver, Colo.

**Wyoming Oil & Exploration Co., Las Vegas, Nev.**
Dec. 7 filed 300,000 shares of capital stock (par $1. **Price**—To be supplied by amendment. **Proceeds**—To pay for leases and drilling. **Business**—Oil and gas exploration. **Underwriter**—None.

# Prospective Offerings

**Alabama Power Co. (3/16)**
Dec. 15 it was reported company is planning issuance and sale of $17,000,000 first mortgage bonds due 1984. **Proceeds**—For construction program. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Union Securities Corp., Equitable Securities Corp. and Drexel & Co. (jointly); Blyth & Co. Inc. and Kidder, Peabody & Co. (jointly); Morgan Stanley & Co.; Lehman Brothers; The First Boston Corp.; Harriman Ripley & Co., Inc. **Registration** — Tentatively scheduled for Feb. 8. **Bids**—Expected to be opened on March 16.

**American Louisiana Pipe Line Co.**
Nov. 10 company, a subsidiary of American Natural Gas Co., asked Federal Power Commission to authorize construction of a $130,000,000 pipe line, to be financed through the issuance of $97,500,000 of first mortgage bonds, $12,000,000 of interim notes convertible to preferred stock at option of company, and $20,500,000 of common stock (par $100), the latter to be sold to parent.

**Atlantic City Electric Co.**
Oct. 5 B. L. England, President, announced that the company plans to issue and sell early in 1954 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.

**Baltimore & Ohio RR.**
Nov. 9 it was reported company is planning to issue $60,000,000 of new collateral trust 4% bonds to mature in 1-to-16 years in exchange for a like amount of collateral trust bonds due Jan. 1, 1965 now held by the Reconstruction Finance Corporation. The latter in turn plans to offer the new bonds to a group of investment houses including Halsey, Stuart & Co. Inc.; The First Boston Corp.; Merrill Lynch, Pierce, Fenner & Beane; Alex. Brown & Sons; and others. The bankers would then offer the bonds to the public.

**Central Illinois Electric & Gas Co.**
Dec. 9 it was announced company intends to offer and sell around the middle of 1954 an issue of $4,000,000 first mortgage bonds. **Proceeds**—To repay bank loans and for new construction. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Stone & Webster Securities Corp.; Kidder, Peabody & Co. and White, Weld & Co. (jointly).

**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.

**Chicago Great Western Ry.**
Dec. 3 company sought ICC permission to issue and sell $6,000,000 of collateral trust bonds due Nov. 1, 1978, through a negotiated sale. **Price**—To be announced later. **Proceeds**—To repay bank loans and for capital improvements. **Bids**—Halsey, Stuart & Co. Inc. on Dec. 14 asked ICC to reject company's request and that bonds be first offered at competitive bidding.

**Chrysler Corp.**
Dec. 23 it was reported that corporation is a prospect for a very substantial emission of debt capital.

**Community Public Service Co.**
Jan. 5, R. L. Bowen, President, announced that company plans to issue and sell in the latter part of March $3,000,000 of first mortgage bonds due 1984. **Proceeds**—To repay bank loans and for new construction. **Underwriters**—Previous bond financing was done through private channels.

**Connecticut Light & Power Co.**
Dec. 7 it was reported company plans to raise between $10,000,000 and $20,000,000 in 1954 from sale of bonds and stock. **Underwriters**—For common stock: Putnam & Co.; Chas. W. Scranton & Co., and Estabrook & Co. Bonds may be placed privately.

**Continental Oil Co.**
Dec. 23 it was reported that this company is expected to be in the market for new capital.

**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.

**Delhi Oil Corp.**
Dec. 29 it was announced company plans to offer to its stockholders the right to subscribe for additional capital stock (with an oversubscription privilege). Stockholders will on Jan. 18 vote on a proposal to increase the authorized capital stock (par $1) from 3,000,000 shares to 5,000,000 shares. **Price** — To be below the present market (about $20 per share). **Proceeds**—To retire debt, to increase working capital and for general corporate purposes.

**Essex County Electric Co. (2/17)**
Dec. 14 it was announced company plans to issue and sell $5,000,000 of 30-year first mortgage bonds. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers; Kidder, Peabody & Co.; Merrill Lynch, Pierce, Fenner & Beane and Union Securities Corp. (jointly). **Bids**—Expected to be received on or about Feb. 17, 1954.

**Gas Service Co., Kansas City, Mo.**
Dec. 11 Cities Service Co. was authorized by the SEC to sell 1,500,000 shares of its holdings of Gas Service Co. common stock through negotiated sale, rather than through competitive bidding. The highest bid ($32,000,000) is understood to have been made by Missouri Public Service Co., subject to approval of the City Council of Kansas City, Mo.

**General Public Utilities Corp.**
Dec. 16 it was announced company plans to offer about 600,000 additional shares of common stock (par $5) to stockholders in March or April, 1954 — probably on the basis of one new share for each 15 shares held. **Price**—To be determined just prior to the offering date. **Proceeds**—To be invested in the domestic subsidiaries. **Underwriter**—None, but Merrill Lynch, Pierce, Fenner & Beane may act as clearing agent.

**Georgia Power Co. (4/6)**
Dec. 15 it was reported company plans issuance and sale of $11,000,000 first mortgage bonds due 1984. **Proceeds**—To repay bank loans and for construction program. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Salomon Bros. & Hutzler and Shields & Co. (jointly); Harriman Ripley & Co., Inc.; Union Securities Corp. and Equitable Securities Corp. (jointly); The First Boston Corp.; Lehman Brothers; Morgan Stanley & Co. **Registration**—Planned for March 1. **Bids**—Expected to be received on April 6.

★ **Great Northern Ry. (1/19)**
Bids will be received up to noon (EST) on Jan. 19 for the purchase from it of $5,070,000 equipment trust certificates to mature in semi-annual instalments from Aug. 1, 1954 to Feb. 1, 1969. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Kidder, Peabody & Co.; Blair, Rollins & Co., Inc.

**Hempstead Bank, Hempstead, N. Y.**
Dec. 18 stockholders approved plan of merger into this company of Bank of Syosset, L. I., N. Y., which will involve the issuance of 12,000 additional shares of Hempstead Bank of $10 par value. Unexchanged shares will be offered publicly. **Price** — $31.25 per share. **Underwriter**—Francis I. duPont & Co., New York. **Offering**—Expected in January.

**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.

**Houston National Bank, Houston, Tex.**
Dec. 21 it was announced Bank, following proposed two-for-one stock split-up, plans to offer its stockholders 50,000 additional shares of capital stock on a one-for-two basis. **Price**—At par ($10 per share). **Proceeds**—To increase capital. **Meeting**—Stockholders on Jan. 12 were to vote on changing the authorized capital stock from 50,000 shares (par $20) to 150,000 shares (par $10).

**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.

**Inter-Mountain Telephone Co.**
Dec. 23 it was reported company in April, 1954, may offer to its common stockholders some additional common stock. **Underwriter**—Courts & Co., Atlanta, Ga.

**Jersey Central Power & Light Co.**
Dec. 16 it was reported company tentatively plans to issue and sell in 1954 about $6,000,000 first mortgage bonds due 1984. **Proceeds** — For construction program. **Underwriters** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; White, Weld & Co.; Glore, Forgan & Co.; Kidder, Peabody & Co.; Union Securities Corp., Salomon Bros. & Hutzler and Merrill Lynch, Pierce, Fenner & Beane (jointly); The First Boston Corp.; Lehman Brothers.

**Louisville Gas & Electric Co. (2/16)**
Dec. 16 it was reported company may issue and sell $12,000,000 first mortgage bonds due 1984. **Proceeds** — For construction program. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; Lehman Brothers and Blyth & Co., Inc. (jointly); Kuhn, Loeb & Co.; Glore, Forgan & Co.; The First Boston Corp.; Harriman Ripley & Co., Inc. **Bids**—Tentatively expected to be received on Feb. 16.

**Louisville & Nashville RR.**
Nov. 12 it was reported that the company may issue and sell an issue of bonds late in 1954. **Proceeds**—To retire $24,610,000 Atlanta, Knoxville & Cincinnati Division 4% bonds due May 1, 1955, and for general corporate purposes. **Underwriters**—May be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; White, Weld & Co. and Salomon Bros. & Hutzler (jointly).

**Maier Brewing Co., Los Angeles, Calif.**
April 18 it was announced company will offer 400,000 additional shares of common stock to its stockholders at rate of four new shares for each share held. **Price**—$5 per share. **Proceeds** — To help finance a new bottling plant. **Underwriter**—None.

**McBride Oil & Gas Corp., Houston, Tex.**
Nov. 8 it was announced that early registration is expected of approximately $5,000,000 of common stock. **Price**—Expected to be about $2 per share. **Proceeds**—For expansion program. **Underwriter** — Bryan & Co., Houston, Tex.

**Metropolitan Edison Co.**
Dec. 16 it was reported company may sell in 1954 about $3,500,000 first mortgage bonds due 1984. **Proceeds**—For construction program. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; White, Weld & Co.; Kidder, Peabody & Co. and Drexel & Co. (jointly); Kuhn, Loeb & Co. and Salomon Bros. & Hutzler (jointly).

**Missouri Public Service Co.**
Dec. 28 it was announced company plans to issue and sell $14,000,000 of common stock and borrow $18,000,000 from banks in connection with proposed acquisition of 1,500,000 shares of common stock of Gas Service Co. of Kansas City, Mo., at a total cost of $32,000,000. Following consummation of proposed merger of the two companies, it is planned to sell $18,000,000 in bonds and debentures to retire the bank loans. **Underwriter** — For stock: Kidder, Peabody & Co.

**★ National Union Fire Insurance Co. (3/16)**
Jan. 14, W. A. Rattleman, President, announced that company plans to issue to stockholders of record about March 16 the right to subscribe for 200,000 additional shares of capital stock (par $5) onthe basis of one new share for each two shares held. **Price**—Expected to be $30 per share. **Proceeds**—To increase capital and surplus. **Underwriter**—The First Boston Corp., New York.

**New Jersey Power & Light Co.**
Dec. 16 it was reported this company tentatively plans issue and sale in 1954 of about $3,000,000 first mortgage bonds due 1984. **Proceeds**—To repay bank loans and for new construction. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co. and Lehman Brothers (jointly); Equitable Securities Corp.; Union Securities Corp. and White, Weld & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane.

**North Shore Gas Co. (Mass.)**
Dec. 14 it was announced that it has been decided to defer a bond issue by this company for at least several months. It had been reported that the issuance and sale of about $3,000,000 of first mortgage bonds had been planned. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers; Kidder, Peabody & Co.; Merrill Lynch, Pierce, Fenner & Beane and Union Securities Corp. (jointly).

**Pacific Gas & Electric Co.**
Dec. 16 J. B. Black, President, announced that company expects to issue and sell a presently undetermined amount of first and refunding mortgage bonds, series W. **Proceeds**—For construction program. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; The First Boston Corp. **Offering**—Expected about the middle of February, 1954.

**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.

**Pennsylvania Electric Co.**
Dec. 16 it was reported that company may issue and sell about $12,500,000 of first mortgage bonds due 1984. **Proceeds**—For construction program. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Equitable Securities Corp.; Kidder, Peabody & Co., Merrill Lynch, Pierce, Fenner & Beane, Union Securities Corp. and White, Weld & Co. (jointly); Harriman Ripley & Co., Inc.; Kuhn, Loeb & Co., Lehman Brothers, Drexel & Co. and Salomon Bros. & Hutzler (jonitly); The First Boston Corp. **Offering**—Expected in March or April, 1954.

**★ Pennsylvania RR. (2/3)**
Bids are expected to be received up to noon (EST) on Feb. 3 by the company at Philadelphia, Pa., for the purchase from it of $5,300,000 equipment trust certificates, series BB, to mature in 1-to-15 years. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Kidder, Peabody & Co.; Blair, Rollins & Co. Inc.

**★ Peoples Finance Corp., Denver, Colo.**
Jan. 5 it was reported company plans to issue and sell $300,000 of 6% convertible debentures. **Price**—At 100% and accrued interest. **Underwriter**—Paul C. Kimball & Co., Chicago, Ill.

**★ Pittsburgh & West Virginia Ry. (2/25)**
Jan. 6 it was reported company plans to issue and sell $7,500,000 of first mortgage bonds due 1984. **Underwriters** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Smith, Barney & Co.; Kidder, Peabody & Co. and White, Weld & Co. (jointly). **Bids**—Expected to be received on Feb. 25.

**Public Service Co. of Colorado**
Oct. 13 it was reported company is planning to float an issue of $15,000,000 first mortgage bonds, due 1984, early in 1954. **Proceeds** — For financing, in part, a $17,000,000 electric generating plant to be constructed in Denver, Colo. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co.; The First Boston Corp.; Harris, Hall & Co. Inc.; Harriman Ripley & Co., Inc. and Union Securities Corp. (jointly); Lehman Brothers; Kidder, Peabody & Co.; Blyth & Co., Inc. and Smith, Barney & Co. (jointly).

**• Public Service Co. of Oklahoma (2/16)**
Jan. 8 company applied to SEC for authority to issue and sell $12,500,000 first mortgage bonds, series E, due Feb. 1, 1984. **Proceeds**—To pay for property additions and improvements and to repay bank loans. **Underwriters** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Equitable Securities Corp.; Salomon Bros. & Hutzler; The First Boston Corp.; White, Weld & Co. and Shields & Co. (jointly); Lehman Brothers; Blyth & Co., Inc., Kidder, Peabody & Co. and Stone & Webster Securities Corp. (jointly). **Registration**—Expected Jan. 22. **Bids**—Around Feb. 16.

**★ Riddle Airlines, Inc.**
Jan. 7 it was reported company plans to file a letter of notification soon to issue an aggregate value of up to $300,000 of new securities. **Underwriter**—Eisele & King, Libaire, Stout & Co., New York.

**Southern California Edison Co.**
Dec. 30, W. C. Mullendore, President, announced that it probably will be necessary for the company to obtain approximately $50,000,000 from the sale of additional securities in 1954, the type of which is not now known. Probable bidders for new first and refunding mortgage bonds, series F, may include: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; The First Boston Corp. and Harris, Hall & Co. Inc. (jointly); Kuhn, Loeb & Co. Probable bidders for common stock may include: Blyth & Co., Inc.; The First Boston Corp.

**Southern Natural Gas Co.**
Dec. 8 it was reported company may issue and sell in March, 1954, about $20,000,000 of first mortgage bonds. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Blyth & Co., Inc., and Kidder, Peabody & Co. (jointly).

**★ Southern Pacific Co. (1/28)**
Bids will be received up to noon (EST) on Jan. 28 for the purchase from the company of $9,660,000 equipment trust certificates to be dated Jan. 1, 1954 and to mature in 15 equal annual instalments. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Kidder, Peabody & Co.

**Spokane International RR. Co.**
Dec. 29, F. C. Rummel, President, announced company is filing an application with the ICC for permission to offer 28,484 additional shares of capital stock (no par) to its stockholders of record Dec. 31, 1953, on the basis of one new share for each six shares owned. **Price**—$15 per share. **Proceeds**—For improvement and modernization program.

**Suburban Electric Co. (3/3)**
Dec. 14 it was announced company plans to issue and sell $4,000,000 of 30-year first mortgage bonds. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers; Kidder, Peabody & Co.; Merrill Lynch, Pierce, Fenner & Beane and Union Securities Corp. (jointly). **Bids**—Tentatively expected to be received on or about March 3.

**Utah Power & Light Co.**
Dec. 23 it was reported company plans to offer in March, 1954, about 200,000 shares of common stock and in May, 1954, approximately $15,000,000 of debentures. **Underwriters**—(1) For debentures to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; White, Weld & Co. and Stone & Webster Securities Corp. (jointly); Union Securities Corp. and Smith, Barney & Co. (jointly); Lehman Brothers and Bear, Stearns & Co. (jointly); The First Boston Corp. and Blyth & Co., Inc. (jointly); Kidder, Peabody & Co.; Salomon Bros. & Hutzler. (2) Previous common stock offering (in 1952) was made to stockholders, without underwriting. If competitive, bidders may include Blyth & Co., Inc.; Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Lehman Brothers; The First Boston Corp.; Union Securities Corp. and Smith, Barney & Co. (jointly).

**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.

# NSTA Notes

**SECURITY TRADERS ASSOCIATION OF NEW YORK**

Security Traders Association of New York (STANY) Bowling League standing as of Jan. 7, 1954 is as follows:

| Team: | Points |
|---|---|
| Klein (Capt.), Fredericks, Murphy, Weseman, Huff | 47½ |
| Bean (Capt.), Bass, Valentine, Eiger, Bradley | 42½ |
| Leone (Capt.), Nieman, Gannon, Tisch, Greenberg | 38 |
| Serlen (Capt.), Rogers, Gold, Krumholz, Gersten | 38 |
| Krisam (Capt.), Pollack, Cohen, Smith, Strauss | 38 |
| Meyer (Capt.), M. Meyer, Frankel, Wechsler, King | 36 |
| Donadio (Capt.), Craig, Gronick, Bies, Demaye | 34 |
| Kaiser (Capt.), Hunt, Werkmeister, Swenson, Ghegan | 33 |
| Growney (Capt.), Boggs, Siegel, Voccolli, Lienhardt | 32½ |
| Hunter (Capt.), Brown, Reid, Farrell, Barker | 30 |
| Burian (Capt.), Gavin, Clemence, Montanye, Whiting | 28½ |
| Manson (Capt.) Jacobs, Topol, Weissman, H. Frankel | 22 |

**200 Point Club**
Roy Klein ........ 202

**5 Point Club**
Jack Manson

The first half of our season closes with the games of Jan. 28. Let us close with a good showing!

**BALTIMORE SECURITY TRADERS ASSOCIATION**

The Baltimore Security Traders Association has elected the following new officers for 1954:

H. L. Kellermann

Wm. C. Roberts, Jr.

J. Claire Sowers

**President:** Howard L. Kellermann, Alex. Brown & Sons.

**Vice-President:** William C. Roberts, Jr., C. T. Williams & Co., Inc.

**Secretary:** David L. Pindell, Lockwood, Peck & Co.

**Treasurer:** J. Claire Sowers, Mead, Miller & Co.

**Board of Governors: (3 year term expiring 1956)**—Allison M. Berry, Robert Garrett & Sons, and Charles Gross, Harry M. Sheely & Co.

## McGrath Securities Sells Micro-Moisture Controls Common Stk.

McGrath Securities Corp. of New York City, on Jan. 12, announced the closing of the books on the sale of 299,000 shares of Micro-Moisture Controls, Inc. common stock at $1 per share as the issue has been over-subscribed.

Micro-Moisture Controls, Inc. have moved into their new modern plant at Miami, Fla., where production on the Weather-Guard (the automatic micro relay mechanism for closing convertible tops and automatic windows on cars in case of rain) and the Weather-Matic (a similar device for operating all gear-operated Jalousie and Casement windows) has been stepped up to meet the increasing demand for these units.

The management also advices that the Weather-Guard automobile unit has been tested and completely approved by the engineering division of one of the leading automobile manufacturers.

Continued from page 16

# Nuclear Power— The Legal Situation

## I

### The Legal Foundation of Nuclear Enterprise Under the Atomic Energy Act

The Atomic Energy Act of 1946 is in fact one huge legal problem for any private enterprise that is planning to build and operate a nuclear power plant. Until the Act is amended in certain very substantial particulars, there simply will be no privately financed nuclear electric power. Let us look at some of the more important legal difficulties created by the Act.

(a) **The Foundation of Ownership of Facilities Is Lacking:** Section 4 of the Atomic Energy Act at the present time precludes the essential foundation of private ownership of the most likely kind of nuclear power reactor, the so-called "breeder reactor." The section makes the Atomic Energy Commission the exclusive owner of all facilities for the production of fissionable materials and this includes not only production facilities themselves, but also facilities for the separation of fissionable materials from waste products. The section expressly prohibits private ownership of all such facilities.

We may assume that no privately owned power plant will be permitted to produce fissionable materials for the purpose of making atomic weapons. But to become a successful operation, economically competitive with fuel-burning plants, the nuclear power reactor will probably have to produce from source materials at least as much fissionable material as it consumes, i.e. it must be a "breeder," for only in this way can full advantage be taken of the economic possibilities inherent in uranium, thorium, or other fissionable elements. So when Section 4 prohibits private ownership of facilities for the production of fissionable materials, it effectively closes the door to privately owned electric power generation.

Furthermore, since, as I have already indicated, Section 4 is so worded that no private person may own facilities to separate fissionable materials from other substances, such as, for example, from the waste products of a reactor, chemical companies, which will, no doubt, be operating as essential partners in the nuclear power enterprise, are prevented from carrying on an essential chemical operation.

It is not within the range of even remote possibility that privately financed nuclear power plants will be built until the foundation of legal ownership is laid by amendment of Section 4. The barrier is absolute.

(b) **The Foundation of Ownership of Fissionable Fuels Is Also Lacking:** Section 5 of the Act also contains provisions which will make it exceedingly difficult for a private nuclear power plant, even if the facilities could be owned by private capital, to get the fuels to carry on a successful operation. The section provides for comprehensive government control over fissionable materials as well as over raw or source materials necessary to reactor operation. These are essential fuel supplies.

As to all fissionable materials, private ownership is absolutely prohibited and government ownership is prescribed. Even possession by private persons by way of loan or lease is prohibited with respect to amounts sufficient to construct a bomb or other military weapon. Unless these provisions are modified to permit ownership, or, at the very least, a long-term possessory right in fissionable materials in adequate quantities (and more than enough for an atomic bomb), the types of reactors most suitable for power purposes cannot be charged with the requisite quantities of fissionable materials. It is assumed, of course, that government priorities for national purposes will be paramount, that private ownership or possession may be limited to quantities reasonably necessary for operation, and that all necessary precautions must be taken to prevent injury to public health, safety, or national security. Accordingly, private owners of nuclear power plants must assume responsibility for exact compliance with regulations adopted to safeguard all of these public interests, including strict accountability for all fissionable materials. Such compliance will be one of the unique and positive legal duties of the nuclear power industry.

(c) **The Foundation of Accessibility of Source Materials Is Also Lacking:** Furthermore, this same Section 5 restricts private acquisition of so-called "source materials," that is, the uranium and thorium ores and their refined but non-fissionable products, also essential as fuel supply. Such materials can be acquired only pursuant to license issued by the Atomic Energy Commission in accordance with such procedures as the Commission may establish. Open market operations are precluded. To assure reasonable certainty of fuel supply necessary to the operation of a normally stable electric power industry, which, of course, must be able to assure its customers continuity of service, properly licensed persons should be granted the right to own, purchase, lease, use, and sell such source materials in the market. Such rights should exist without restriction, subject only to the priority claims of the Atomic Energy Commission necessary in the national interest, and also subject to any regulations that may be necessary to protect public health, safety and national security, including the right of the government to control the amounts of source materials held by private persons. Subject to these limitations, however, the traditional freedom of the market is essential to provide the necessary foundation and to encourage the entry of private capital into the nuclear power field.

(d) **The Foundation of Right to Continuity in Business Is Also Lacking:** The Atomic Energy Act in Section 7 prohibits private persons from utilizing fissionable materials or atomic energy in any way unless licensed to do so by the Atomic Energy Commission. The license granted under the present Act is subject to some very troublesome legal limitations, the most difficult of which is the fact that it may be terminated by the Commission at any time, and it may be done without notice or opportunity for hearing, and without showing of cause. Recognizing fully that it may become necessary for the Commission to terminate an occasional license in the interest of public health, safety, or national security, it is nevertheless a fact that private capital cannot be invested without a reasonable foundation in the form of a right to continue in business for those who comply with all lawful regulations. This foundation is lacking under the present Act. Private capital simply will not flow into so precarious a field. The Act must be amended to provide the essential foundation, at the same time, however, retaining enough Federal control to protect public interests. The legal right of continuity in business will be very important to the nuclear power industry.

In these four respects, then, the present Atomic Energy Act sets up serious legal barriers, virtually precluding private nuclear electric power operations. Congress must remove these barriers if there is to be any such industry.

## II

### The Patent Problem

In still another respect the Atomic Energy Act, as at present written, interposes a seriously discouraging factor — a legal deterrent although not an absolute barrier. Private patents in the normal American sense are not permitted. No patents whatsoever can be obtained for inventions solely useful for weapons (this is unobjectionable), or solely useful in the production of fissionable material (but this is objectionable). As previously mentioned, "production" as used in the statute includes not only production in the normal sense, but also the chemical processes of separation of fissionable materials from non-fissionable materials. So the prohibited area is a broad one. In addition, no patent dealing with other phases of atomic or nuclear technology can, if it is issued for a multi-purpose invention, confer patent monopoly with respect to weapons or to the production of fissionable material, nor may such patent confer the right to prevent the use of the invention in the conduct of research or development activities. Furthermore, and this is perhaps the most discouraging feature of the present Act, any patent which is issued in the atomic energy field is subject to being declared by the Atomic Energy Commission to be "affected with the public interest," if the Commission finds that the licensing of such invention "is necessary to effectuate the policies and purposes of the Act." In such cases the normal encouragement given by the American patent system is withheld, for all persons licensed by the Commission to use atomic energy may make use of the invention upon the payment of royalty fees fixed by the Commission. The person who by the expenditure of his time, energy, initiative, ingenuity, and money produces a new and useful invention is deprived of the normal rewards. The "free rider" gets a windfall. What effect will this have on the progress of science in the field?

Industry may even be affirmatively deterred by this legal situation from embarking upon large scale research and development programs. It is true that during recent years patents have not figured very importantly in the electric power industry. When nuclear electric power plants are built and operated, however, the chances are that we shall see a wholly different type of industry. The reactor is far different from the steam boiler. It produces not only heat for steam for turbines, but also heat so intense that it may be used for revolutionary chemical processes, "waste products" that will probably have many applications in chemical industries, isotopes that may be used in medicine, in industry, and in agriculture, neutrons and other forms of radioactivity that may have peculiar values in chemistry, medical therapy, or elsewhere. The nuclear power plant will be a complex producer delivering not only electric energy but also many valuable associated end products. These end products are likely to become a significant economic factor in the total enterprise. Indeed, without their contribution, economical competition with conventional heat sources in the production of electric power may not prove possible. Whatever it may mean to the electric power elements of the enterprise, patent encouragement will be a most valuable stimulant to these supplementary activities. Without such encouragement there will certainly be a substantial drag upon research and development.

In short, the present patent provisions of the Atomic Energy Act, although they are not a complete barrier to the broad scale realization of all of the potentialities of nuclear power reactors, are certainly an important deterrent to rapid and effective development in the field.

## III

### Certain Other Federal Legal Problems

Leaving the Atomic Energy Act now, we shall take a brief look at legal problems arising under certain other Federal laws —problems that will demand the attention of businessmen and lawyers who embark upon nuclear power enterprises.

(a) **Stream Pollution:** If there is likelihood of pollution of navigable streams by discharge of radioactive susbtances into them, or into the ground from which they may be carried by underground waters into the streams, suitable arrangements must be made and clearance obtained from the United States Surgeon General's office, which has jurisdiction over such matters. (Title 33 U. S. C. Para. 466 (a)).

Furthermore, if boundary streams or waters are involved, the nuclear power plant must observe the legal requirements of various interstate compacts, and follow the administrative regulations of appropriate interstate compact commissions, such as the Ohio Valley Water Sanitation Commission (covering Illinois, Indiana, Kentucky, New York, Ohio, Pennsylvania, Tennessee, Virginia and West Virginia), or the Delaware River Basin Water Commission (covering New York, New Jersey, Delaware and Pennsylvania, not yet operative), or the Interstate Sanitation Commission (covering New York, New Jersey and Connecticut).

Finally, if the boundary waters happen to be international, the international commissions set up with jurisdiction over such waters must be dealt with.

Stream pollution clearance, in other words, may become one of the essential legal problems in nuclear power enterprise.

(b) **Antitrust Laws:** Perhaps a more important and certainly a more difficult problem arises under the Federal antitrust laws, the laws which prohibit monopoly, restraint of trade, and unlawful competition. As I have said, the nuclear power plant is doubtless destined to be a far more complex organization than is the existing type of steam or hydro-electric plant. Integrated with the power production function will be activities connected with a multitude of chemicals, waste products, isotopes, and perhaps other end products. These products must be disposed of to the greatest possible economic advantage if the business is to be economically successful.

Consider, for example, an antitrust question facing the management of a nuclear power plant which wishes to make arrangements to dispose of its chemical products as well as the electric power which it generates. What shall it do with these chemical products? May it sell all of them to one chemical company, for example to a chemical company that has invested heavily in the enterprise? Or, in the alternative, is the management required by the antitrust laws to sell these chemical products in the open market under normal competitive conditions? Unanswered and perhaps unanswerable at the present time, this is a question that chemical industries will certainly have to answer before they can participate in nuclear power production in a legally enlightened manner.

(c) **Public Utility Holding Company Act Problems:** Now let us glance briefly at the Federal Public Utility Holding Company Act. What is its application to our nuclear power plant? Imagine a hypothetical case. Suppose one or more public utility companies join with a chemical company and a manufacturing company to erect a nuclear power plant. A separate corporation is created to own and manage the plant. Its stock is purchased by the companies cooperating in the enterprise. The operating company proceeds to build and operate the nuclear power plant, selling its electricity to the power systems, its chemical products to the chemical company, and its isotopes to the manufacturing company. To what extent, if at all, is this organization subject to the provisions of the Federal Public Utility Holding Company Act? If the Act applies, what special duties, obligations, and limitations result therefrom? Must security issues be approved by the Federal Securities and Exchange Commission? Must intercorporate relationships likewise be approved? What reports must be made to the SEC? The answers to these questions depend upon a number of factors—the extent of stock ownership by the parent companies, the materiality of the income derived by each of the parent companies from the subsidiary company, the extent to which the public interest is likely to be adversely affected by the operations. Without attempting to answer the questions, suffice it for the moment to say that each must be given careful consideration in connection with the initiation of an enterprise anything like our hypothetical situation. And yet the hypothetical situation is not far removed from the corporate structure to be anticipated for early nuclear power enterprises.

## IV

### Problems Arising From State Laws

Now we turn away from Federal laws to the very considerable number of special legal questions that must be asked and answered in connection with state regulatory laws.

(a) **The Certificate of Convenience and Necessity:** Each nuclear power enterprise must, of course, obtain a certificate of convenience and necessity in order to commence operation. The certificate will be requested from the state public utility commission. Such a certificate is required of all utilities, but nuclear power projects will present some new and unusual questions. The commissions are given broad discretionary authority over the issuance of such certificates. They are required to issue them only if they find that "public interest" will be properly served by the new enterprise. Are they likely to withhold certificates unless they become convinced that electric power can be generated by the use of nuclear fuels as cheaply as by conventional means? Are they likely to refuse certificates because of the speculative character of the enterprise? Or because of the fear of power failure due to shut-down? These questions can be answered only by approaching the appropriate utility commissions to ascertain their views. Such contacts as we have made have revealed lack of knowledge of the subject and not a little of skepticism about it all.

At the outset, at least, certificates will not be issued as a matter of course. Proper proofs will be required.

(b) **Approval of Security Issues:** If security issues are required in order to finance the nuclear power plants, we again encounter the necessity of obtaining approval before the securities can be placed upon the market. Public utility commissions are given broad discretionary power to refuse approval if the "public interest" will not be properly served. In requesting approval a number of questions must be answered; for example, what about absorbing initial losses? What about the use of proceeds from sales of securities to finance research and development? These are problems that the lawyers will have to help solve.

(c) **Acquisition of Stock:** It seems likely that at least the initial nuclear power plants will be built by corporations the stock of which will be owned by one or more existing utility companies, or perhaps by utility companies acting in cooperation with non-utility companies, such as chemical companies, or manufacturing companies. Under such circumstances, approval, in many states at least, will be required for the acquisition of stock by parent utilities in the subsidiary nuclear power enterprise, and likewise by non-utility companies in the utility enterprise. Approval of these fiscal transactions will again be based upon the determination of whether "public interest" will be properly served. Again the unique character of the new industry will give rise to the necessity of presenting special and convincing proofs to the controlling state administrative agencies.

(d) **Approval of Intercompany Contracts:** In many states provision is made for public utility commission regulation of contracts between affiliated utility companies. If contracts are to be entered into between the nuclear power plant management and other utilities for the sale of power, or with chemical or manufacturing companies for the sale of end products, these contracts will have to be filed with and approved by the public utilities commissions. Again, the standard of approval or disapproval will be the public interest, and again some new problems of proof are certain to arise.

(e) **Rate Regulation:** In practically all of the states of the Union the rates of public utilities are regulated by state commission action. Nuclear power plants will, of course, be no exception. Will the rate schedules be required to conform with rate schedules that would be approved for plants utilizing conventional sources of energy? Or will the rates be adjusted to the costs of the new nuclear enterprise? If the latter, what action will the commissions take with respect to the selling price of the waste products and byproducts which are sold for chemical, manufacturing, medical, agricultural, and other purposes? Will not the utility commission regulate the sale price of these items in order to keep control of the balance sheet related to the electric power rates? If so, what will be the impact of this regulation upon the development of the collateral industries utilizing the byproducts of nuclear reactors?

(f) **Safety Regulations:** As we all know, the nuclear reactor presents some very special problems relative to employee and public safety. Under state laws departments of labor and industry are given authority, sometimes rather limited it is true, to issue regulations concerning health and safety of employees. Also public utility commissions regulate certain safety features of the utilities within their jurisdiction. A case in point is a recent Pennsylvania statute, effective July 13, 1953, pursuant to which the Department of Labor and Industry is given authority to enforce a general health and safety act for employees, one section of this act making especial provision for prevention of injury due to radioactive materials. We shall see many more such statutes and administrative regulations in the years to come.

Furthermore, the common law establishes liability for civil damages to persons and property, especially in case of injuries occasioned by dangerous substances. Workmen's compensation laws provide awards for industrial accidents to employees. All of these laws will affect the nuclear reactor industry, and the lawyer will be confronted with some new and unusual problems of proof. Careful exposure records will have to be kept for each employee for each day of service. Exposures to radioactivity must not exceed certain specified figures. If by accident in any case they do exceed the maximum limits, special health precautions must be taken to mimimize the damage. Unusual care in the long time preservation of individual records as well as operations data will be necessary in order to deal with the possibility of workmen's compensation claims and civil actions for injuries to persons and property that may be brought years later. Numerous special problems in connection with insurance coverage and liability will be encountered, for no private company can afford to be without adequate insurance coverage for these unique hazards. The lawyer is going to have some interesting and challenging problems of proof with which to deal. How, for example, will he defend his client if the proof requires bringing out "restricted" information?

(g) **State Conservation:** Mention has already been made of the necessity of obtaining Federal clearance with respect to water pollution. State authorities are also going to have an interest in this matter. The state water resources commission or the conservation commission will have to be satisfied that the public interest is being properly served. Appropriate proofs will again have to be made and clearances obtained.

**V**

**Local Laws and Legal Problems**

Finally, at the local level we shall find that the nuclear power plant will be required to solve some unique legal problems. In many of our states we now have County Rural Zoning Acts, conferring upon county boards of supervisors, or their equivalent, authority to adopt ordinances establishing zoning districts regulating the uses of property within the boundaries subject to their jurisdiction. (In Michigan, for example, the pertinent legislation is Act 183, P.A. 1943, Vol. 4 (a) M.S.A. Para. 5.2961.) There are also township building regulations with which to deal. (In Michigan they are in Act 185, P.A. 1943, Vol. 4 (a) M.S.A. Para. 2973.) Undoubtedly the nuclear reactor with its potentialities for harm to persons and property will be looked upon with local disfavor, especially at the outset, by county and township zoning authorities, at least in the more populous areas. It is not unlikely that special state enabling legislation will be necesary to deal with this problem.

**Conclusion**

This ends our brief cataloguing of legal barriers, obstacles, and major and minor juristic problems. Lawyers are often accused of raising legal objections to novel enterprises without using imagination and initiative in solving them. Let it be observed that all of the legal problems which I have mentioned can and, indeed, must be solved, although the cooperation of Congress and the state legislatures may be required to resolve some of them. We seem to be on the verge of embarking upon a new and challenging field of human endeavor. Legal obstacles cannot and will not be permitted to stand in the way of progress.



# Our Reporter's Report

Growing expectations of renewed easing in money rates is tending to stir institutional buyers from their recent attitude of resistance to prevailing yields on new securities, it appears.

**This trend has become so marked that several recent new emissions which had gotten away to a slow start, have cleaned up rapidly with sponsoring groups able to announce closing of subscription books. Quick absorption of Public Service Co. of Indiana's new bonds on a 3.23% basis was indicative of the trend.**

Included among this group are Philadelphia Electric Co.'s $20,000,000 of 30-year, 3⅛% first and refunding bonds brought out about five weeks ago on a yield basis of 3.15%.

Meanwhile Consolidated Edison Co. of New York's $35,000,000 of 30-year 3⅜% bonds, brought out a week ago at a price to yield 3.23%, also took fire early this week and moved out to investors.

**Doubtless the splendid reception accorded the World Bank's $100,000,000 of new 3½% bonds lent stimulus to the general market along with the steady nibbling which has made for a strong front in the seasoned list. Yesterday saw Appalachian Electric's $20,000,000 of new 3½s with a 3.35% yield, snapped up quickly.**

But back of it all seems to be a tendency to look for a letdown in money rates. With commercial loans showing a record drop last week, the investment world naturally will be watching the current trend in that direction with keen interest for a while ahead.

**Difference of Ideas**

Competition for the privilege of handling the "standby" underwriting of Ohio Edison Co.'s 527,630 shares of common stock reflected a wide divergence of opinion on the part of investment bankers.

**The successful bid called for compensation of 11.9 cents a share for taking over any stock left unsubscribed by holders. But a series of other bids ran out to a high figure of 16.4399 cents a share, making for a spread of more than 4.5 cents a share between the two extremes.**

The stock is to be offered at $35.75 a share to holders of record as of today, with the offering period expiring on Jan. 29.

**Next Week's Prospects**

Next week's new issue schedule in the corporate field is topped by two substantial new debt offerings, plus a brace of equity projects.

**On Tuesday Ohio Edison Co. will open bids for an issue of $30,000,000 of new 30-year, first mortgage bonds. With this one as a starter, the Michigan Consolidated Gas Co., on Wednesday will look over bids for its projected $20,000,000 of new first mortgage bonds.**

Three days later brings the expiration of stockholders' rights to subscribe for Consumers Power Co.'s offering of 679,436 shares of additional common. Bankers then will proceed to take up whatever portion remains unsubscribed.

**Swelling the Total**

Stock Exchange bond brokers doubtless would like to see more days like Tuesday of this week when a "cleaning-up" transaction in American Telephone & Telegraph Co.'s 3¾s of 1965, added $5,823,900 to the day's turnover in one fell swoop.

This represented the clearing away of the tail-end of the company's last offering of debentures to shareholders and consisted of sales by the company of securities not taken up on "rights."

This was accomplished in the regular way and when the job was rounded out, it was put through on the Big Board floor with the record appearing on the tape.

## Paine, Webber Adds

(Special to The Financial Chronicle)

LOS ANGELES, Calif. — Joyce Clark, formerly with Hill Richards & Co., has joined the staff of Paine, Webber, Jackson & Curtis.

## Walston Adds to Staff

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—Howard D. Wells has become connected with Walston & Co., 550 South Spring Street.

## With Merrill Lynch

(Special to The Financial Chronicle)

OAKLAND, Calif.—Richard H. Waddell is with Merrill Lynch, Pierce, Fenner & Beane, 1319 Franklin Street.

# Washington... And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—President Eisenhower surprised just about everyone by the variety and magnitude of the welfare program he is proposing to Congress.

Most of all he surprised his Republican following who, while they gleaned from the leadership conferences at the White House his direction, thought he was playing political give and take. Until they saw the Annual Message on the State of the Union, they thought they had arranged a compromise, and that their President would not stock too heavily of merchandise from the Truman-Roosevelt political warehouse.

Mr. Eisenhower discloses, as they now see it:

That his concept of leadership means the right to pick the entire Republican program, down to its last details, after pleasant and respectful listening to Congressional ideas.

A President, of course, is supposed to be the "leader of his party." This does not mean, however, that a la Roosevelt he should frame all the 36 party objectives and explicitly write all their terms.

How the President's concept of his relations with Congress is changing, is illustrated by the housing picture. After Albert M. Cole, Housing and Home Finance Administrator, finally gave forth the Advisory committee's report and recommendations on housing, a study the President, not the Congress wanted, Mr. Cole thought that it would be up to him to compromise a housing program out with Congress.

**Instead, the White House is writing the ticket. All that the two Banking committee chairmen had to say was a word or two at the White House about a program whose variety and potential cost is tremendous.**

In theory Congress writes legislation. In theory Congressional committees hold hearings, gather information and opinion about issues, and make decisions, good, bad, or indifferent. In theory all the members of the committee have a real vote and choice about legislation. Before Roosevelt, it used to be that way in fact for sure.

Mr. Eisenhower is sending a housing message to Congress, however. With housing as with most of the other 36 issues the President has raised, therefore, the news will be whether Congress is going along with or opposing the President. The President is placing himself on record as to the main details of most of his programs, not merely with broad objectives. So if Congress changes a thing here or there, "Congress opposes the President," will be the news headlines frequently for 1954.

### Recommended Small Program

President Eisenhower was urged both by his seasonal leaders and by some of the less starry-eyed within the Administration to urge upon Congress a limited program of a few objectives. In any case that is the most he can get out of Congress, and why muddle up the works by proposing a couple of dozen things which cannot be handled, he was told.

Mr. Eisenhower rejected that advice.

### Program Is Broad

Mr. Eisenhower's welfare program is broad. Because of the peculiar nature of the President's delivery, many failed to grasp the extent of the welfare commitments he proposed.

Thus, in talking about health, he led off with a ringing declaration against socialized medicine, thereby aligning himself against the Truman scheme of compulsory national health insurance financed by payroll deductions.

What many people may have missed is that the President proposed that the government, already aiding in the construction of local hospitals, also aid in the construction of physical facilities for caring for the chronically ill, for rehabilitating persons, for nursing homes, and also diagnostic centers.

**Furthermore, the President also came out for Federal reinsurance of private, non-profit health insurance. It is felt that if this means anything, it means Federal bearing of a big health cost factor. The money to finance this is not coming from heaven, and once such a scheme was put on the books, it could easily slide into a total governmental insurance, perhaps also compulsory.**

### List the Programs

Here is a bare listing of additional welfare programs contained in the President's message:

Upstream flood prevention.

A "strengthened" soil conservation program.

An "uniform and consistent" water resources policy.

Safeguarding of domestic production of critical and strategic materials.

An expanded highway construction program.

Broadening the coverage and benefits of old age pensions.

Broadening the coverage and benefits of unemployment insurance.

More research into cancer and heart ailments.

Federal assistance for construction of local schoolhouses.

A broad extension of governmental intervention in housing, by more liberal mortgage guarantees and extension of grants and loans to aid cities in dealing with a much broader segment of their housing problems.

More government housing and medical care for military personnel.

### Confuses Republicans

Mr. Eisenhower has simply flabbergasted his Republican following. At the moment, however, this following is acting like a well-bred gentleman who caught his wife flirting with the ice man. He neither runs up and down the block sounding off about his wife's conduct, nor admits the delinquency when a neighbor hints about it.

Curiously Mr. Eisenhower has also somewhat confused the Democrats, who wonder just what you do when your opponent tries to swipe and wear your political pants.

**There is only one group whom the President has pleased, namely the left-wing Republicans, who have been saying year in and year out that the Republican party must show itself the party that is willing to help bear the cross of the poor, the halt, and the lame. When anyone suggests to this type of Republican that maybe a new and greater welfare program would wreck the government's finances, he just waves his hand impatiently and says, "This is the mid-20th century. You just can't turn back the clock."**

On Capitol Hill there is a pretty prevalent private feeling that any leader who simply pulls out all the stops on the political organ just looks foolish. It isn't beyond possibility that most of them will come to laugh at Eisenhower, unless the President yields to those who are urging the President to be another "strong man" like Franklin D. Roosevelt. In that case he might be viewed as more than an annoyance.

### Little Will Pass

Beyond the fact that this session, with a precariously-balanced party line-up and anxious to get away by mid-summer, can pass little of Mr. Eisenhower's program, little can be forecast about what will happen in view of the revolution Mr. Eisenhower has worked in the political outlook.

**The President's strategy obviously is that if you advocate what Democrats stand for, Democrats will have to vote for you. Then, with what GOP membership remains "loyal" to the President, he can put a legislative program across, and this will reelect Republicans. At the same time the Republican "liberalism" will win the mass votes for the Republican party.**

As a general principle, the guy who can swipe not merely a piece or two, but all the merchandise of his opponent, ends up a miserable failure. Mr. Eisenhower may prove to do the trick, and rank with the political geniuses.

### Can Sabotage

On the other hand, when they have recovered their poise, the Democrats can probably neatly sabotage Mr. Eisenhower's "liberalism" by simply taking the viewpoint it doesn't go far enough.

The expansion in coverage of the old age and survivors "insurance" program represents a possible case in point.

At the present time the White House wants to go somewhat farther toward liberalizing this program whilst taking time about junking the old age grant-in-aid pension program. House Republicans want to get this latter liquidated.

**When this comes up for the yonder roll call, Democrats will probably offer the Lehman bill to vastly liberalize pension payments and include pensions for the disabled.**

Expensive as are the Eisenhower housing ideas, Democrats can think of ways to spend greater sums of money.

Possible result: In the tangle no legislation. So the Republicans ain't done nothin' for them there peepul.

*(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


**"Frankly, gentlemen, I think 1953 was a more challenging and stimulating business year—with Marilyn Monroe on all the calendars and everything!"**

## Business Man's Bookshelf

**Cycles**—Monthly reports giving results of latest cyclic research in stocks, prices, business—$10—Also included are reprints of six chapters and postscripts issued plus a Chart Projection to 1990 of various stock market cycles made in 1954 (Chart C-14)—Foundation for Study of Cycles, 9 East 77th Street, New York 21, N. Y.

**Monatt's Farmers Income Tax 1954**—Samuel M. Monatt—Commerce Clearing House, Inc., 214 North Michigan Avenue, Chicago 1, Ill. (paper), $4.

**Monatt's 1954 Guidebook to New York State Income Taxes on Individuals, Partnerships and Fiduciaries**—Samuel M. Monatt—Commerce Clearing House, Inc., 214 North Michigan Avenue, Chicago 1, Ill. (paper), $5.

**Rate Policies and Rate Practices of the United States Post Office**—Jules Backman—Magazine Publishers Association, Inc., 232 Madison Avenue, New York 16, N. Y. (paper), $1.

**Revision of the Taft-Hartley Act**—A Bibliography—Selected References, Industrial Relations Section, Princeton University, Princeton, N. J. (paper), 20c.

**Regulations Concerning Dealings in Gold and Foreign Exchange in France**—14th Supplement—Bank for International Settlements, Basle, Switzerland (paper), 16. Swiss francs (complete series of regulations plus supplements), 140. Swiss francs.

**Statistical Abstract of the United States: 1953**—U. S. Department of Commerce—Superintendent of Documents, U. S. Government Printing Office, Washington 25, D. C. (cloth), $3.50.

**Stock Market Profit Without Forecasting**—Edgar S. Genstein—Investment Research Press, 45 University Court, South Orange, N. J. (cloth), $3.50.