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EDITORIAL

As We See It

We can only hope that the Republican party realizes that the sands are running out. Unless more effective attention is paid to the important issues of the day, it may well be that the election campaigns of this autumn will perforce turn on such issues as McCarthyism, allegedly neglected Communist infiltration, corruption in government and the like rather than upon the constructive statesmanship on many fronts which the Eisenhower Administration has so often and so emphatically promised the American people.

Such an outcome would be doubly unfortunate. It would reveal with startling clarity a divided party wholly unable to deal effectively with serious issues, but it would in addition be another political campaign which could hardly produce any sort of a mandate for constructive action on major questions. We should have a discouraging exhibition of a democracy impotent and perhaps indifferent to the things which must make or break this nation in the decades to come.

Yet it must be admitted that it is in this direction that the situation seems to be headed today. In some degree doubtless an impression that such is the case is strengthened by the popular interest in the McCarthy hearings circus. Radio, television and the press have of late been so greatly occupied with this sideshow that little room has been left for other things. One is often left to guess the degree in which the general content of the news of the day is governed by the absorption of the news gatherers and the news distributors with these sensations rather than by simple neglect on the part of the authorities of the more serious if less dramatic issues, but if

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Inalienable Rights vs. The Union Shop

By F. G. GURLEY*

President, Santa Fe System Lines

Prominent rail executive, after reciting constitutional provisions guaranteeing inalienable rights, reveals law suit now pending in Texas, and which may soon get to Supreme Court, involving compulsory union membership. Says "it is an obvious infringement on the liberty of a man to force him against his will to belong to any private organization" and "there is nothing absolute in majority rule." Points out modern labor organizations have been favored in recent laws, and, because of the rapid growth of unionism, they do not need principle of compulsory unionism.

Tuesday of last week was the 211th anniversary of the birth of Thomas Jefferson, the author of our Declaration of Independence. This Declaration announced a political philosophy which, while it had its antecedents in England and the European Continent and even in the ancient world, nevertheless in many ways represented a new departure. The signers were bold and courageous men, and in support of their declaration they mutually pledged to each other their lives, their fortunes, and their sacred honor.

Fred G. Gurley

It is appropriate therefore to pay tribute to Jefferson, and to those others who signed the Declaration, and to record the fact, significant in its bearing upon the subject which has been under discussion at this meeting, that the very first pronouncement after the opening paragraph of the Declaration begins with this stirring justification of the momentous step the Colonies were taking:

"We hold these truths to be self-evident, that all men are created equal, that they are endowed by their

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*An address by Mr. Gurley before the Spring Meeting of the Academy of Political Science, New York City, April 21, 1954.

Economic Outlook for Subscription Television

By DR. MILLARD C. FAUGHT*

Economic Consultant
Zenith Radio Corporation

Dr. Faught, in commenting on the outlook for subscription television, discusses the question of its socially useful and economically profitable purposes; its characteristics and operation requirements, and the impact if such a TV system becomes commercially available. Points out subscription television is not a substitute for regular television and it does not require separate or additional television channels. Outlines vast potentials of subscription TV and tells of its probable impact on radio, television and moving picture industries.

I believe I can effectively cover the subject of subscription television by posing three basic questions and answering them as factually and realistically as possible. The questions are these:

Millard C. Faught

(1) What socially useful and economically profitable purpose would subscription television serve; i.e., what are its economic and market potentials?

(2) What are the characteristics and minimum operational requirements which subscription TV must have in order to serve these market potentials?

(3) What has to happen before such a system will be commercially available?

Obviously, there are many auxiliary questions, but the right answers to these three could, in my sincere opinion, spill out a whole series of new jackpots for television and for a number of related industries. They could, for example, create new bonanzas for the motion

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*An address by Dr. Faught before the New York Society of Security Analysts, New York City, April 18, 1954.

SECURITIES NOW IN REGISTRATION — Underwriters, dealers and investors in corporate securities are afforded a complete picture of issues now registered with the SEC and potential undertakings in our "Securities in Registration" Section, starting on page 41.

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

American Telephone & Telegraph Co. — Alexander H. Deuble, President, Yorkville Exchange Co., Inc., N. Y. City. (Page 2)

Allied Mills, Inc.—Edward S. Wilson, Manager, Research Dept., Hallgarten & Co., New York City. (Page 2)

ALBERT H. DEUBLE
President, Yorkville Exchange Co., Inc.
Members of N. A. S. D.
New York City

American Telephone & Telegraph Co.

Our clients are from many walks of life, almost all have certain likes and dislikes. We like to tailor our investment suggestions to their needs. But under present conditions we like to suggest only sound, conservative investment-quality stocks, not only with a past and present but also with a future. At this moment we like to play it safe, even if to doubt the uninterrupted prosperity of our American economy and ever continuing rise of the Dow-Jones averages might well be considered political or financial heresy. There are a number of people, smart or anxious, part lion and part mouse, who have lost their appetite for Du Pont above 120 and General Electric near 115 or even some of the much touted defensive situations in the utility group producing only a measly yield of slightly more than 4%. In the light of receding industrial production figures and a continuously rising stock market it is certainly very difficult to make the right decisions. Do not let us be deceived by the optimistic statements of politicians and businessmen. One independent commentator e.g. takes the following viewpoint: "The President's economic advisers are more worried than they like to admit over the Spring business boom. Reason for worry is that the boom hasn't been as big as they expected. . . . A flood of high school and college graduates will pour into the labor market in another month and a half. This almost certainly means worse unemployment this summer. . . ."


Albert H. Deuble

We write this little study for those who like to be on the safe side and still play an active part in our great scheme of things. In our daily dealings with a great many customers we hear the argument that the market is too high, that the prices for the best dishes on the stock market menu are exorbitant and that the best policy is to leave well enough alone. Such an ostrich-like policy is wrong, wrong for the investor and wrong for the broker. Savings Banks or government bonds pay only about 2½% and offer no solution. But peace of mind for the investor is an important consideration. Reasonably good health and financial well-being should be marching partners. With such general thoughts in mind and appealing to the conservatively minded investor we nominate AMERICAN TELEPHONE AND TELEGRAPH as "The Security I Like Best."

Let me state right from the beginning that American Telephone is a growth company, not in the financial sense of the word but in the technical one. Here we have a gigantic enterprise whose business is growing by leaps and bounds, conquering from year to year new scientific frontiers. Since the end of World War II it has added more than 19 million telephones and spent more than $9 billion on new construction without yet satisfying the demand for new phones. Still, the capital structure is most conservative: only about 40% in debts. There is no reason to doubt that the company will continue to pay the annual dividend of nine dollars which has been in effect since 1921 without interruption. Payments have been made since 1881. Furthermore valuable rights can be expected from time to time. In this way, the distribution reached about $12 last year, giving a total yield of about 7%.

The technical growth is most interesting. Only a few days ago it was announced that the scientists of the Bell Laboratories have invented a battery that converts sunlight into usable electric current. This is just one of the many things on which the Bell scientists are working. The company (through Western Electric) is also a big supplier of our armed forces. "Nike," the first anti-aircraft guided missile system is now in production. This remarkable weapon is designed to locate and destroy hostile bombers which by height, speed and evasive tactics might escape conventional weapons. In 1953 the Western Electric Company had sales of $440 million to the Defense Department of the government which were by far the highest since World War II. Another noteworthy defense project was the construction for the Air Force of the first experimental units of a "Distant Early Warning Line" of radar stations on the Northern shores of Alaska and Canada, only 1,200 miles from the North Pole.

These are just a few of the many samples of the continued technical growth of the company. Financial growth is lacking. This is inherent in this type of business. But the close supervision of the rate structure by the different states also guarantees the company a fair livelihood under any circumstances. This "Rock of Gibraltar" should even withstand another dose of inflation.

The market prospects for American Telephone look excellent under any conditions. The quality of the stock is of the highest, the dividend is assured and the investment demand is steadily growing so that a yield of 5% (which would bring the stock to 180) would be fully justified. Several times in the past the stock has sold on a 5% basis. There is no reason why this should not happen again. Eventually there might even be split-up. In the light of these considerations we like "Telephone," listed on the New York Stock Exchange.

EDWARD S. WILSON
Manager, Research Department, Hallgarten & Co., New York City
Member New York Stock Exchange and American Stock Exchange

Allied Mills, Inc.

In my opinion, the common stock of Allied Mills, Inc., currently selling at about 30, offers the investor an attractive package combining interesting appreciation possibilities, a yield of close to 7%, proven defensive characteristics, a simple capitalization with no funded debt or preferred stock, and a strong financial position. Moreover, earnings, which had been affected severely by a weakened price structure over the past two years, took a decisive turn for the better in the December quarter and this improvement is continuing. Over the longer term, the animal feed industry, although little known to investors, has shown a steady growth due to recognition by farmers of the very tangible benefits of scientific feeding, a rising per capita consumption of meat, poultry and eggs, and an ever-increasing human population. Allied Mills is the only company, with stock listed on the New York Stock Exchange, the principal endeavor of which is the manufacturing of livestock feeds.


Edward S. Wilson

Although there are approximately 6,000 feed mills operating in the United States, a considerable portion of this business is done by a small group of companies. Ralston Purina Co. is the largest in the field. Following Ralston Purina is a group which includes: Allied Mills, Inc.; Co-operative G.L.F. Exchange, Inc.; Cooperative Mills, Inc.; Eastern States Farmers Exchange, Inc.; General Mills Co.; McMillen Feed Mills; Nutrena Mills; Pillsbury Mills Co.; and Quaker Oats Co. Since the war, the branded feed industry has shown a substantial growth, increasing its share of all livestock and poultry feed, exclusive of roughage and pasture, from 22.4% in 1947 to 25.7% in 1949, 26.2% in 1951, 27% in 1952, and 30% in 1953.

Allied Mills holds an important position in the production of poultry and hog feeds. It is especially noteworthy that the industry's tonnage production of poultry and hog feeds reported above-average increases in the 1946-1953 period. In fact, poultry feed has shown a rise over the previous year in each of the past seven years.

What are the important reasons for the substantial rise in branded feed production since the war? In my opinion, there are three:

(1) Growing recognition by farmers of the very tangible benefits of scientific feeding.

(2) A rising per capita consumption of meat, poultry, eggs and milk, reflecting both an improving standard of living for the mass of people and a switch away from starchy foods.

(3) The tremendous rise in the birth rate which, combined with greater longevity due to medical advances, has resulted in a consistent rise in the total population.

Allied Mills was incorporated in 1929 as a holding and operating company to acquire the entire capital stock of the American Milling Co., originally organized in 1909, and the McMillen Co., established in 1917. Common dividends have been paid in every year since 1935. Branded feed, which accounts for the greater part of the company's sales, is sold under the trade name of Wayne. Poultry feed is by far the most important product, followed by hog feed, dairy and cattle feed and dog food and other specialty livestock feeds. The company also processes soybeans to produce soybean meal, which is the principal source of vegetable proteins for its own livestock feeds, and soybean oil, sold large-

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The Bullish Implications Of Investors' Skepticism

By JACQUES COE

Senior Partner of Jacques Coe & Co.
Members New York Stock Exchange

Mr. Coe contends that in contrast to public enthusiasm customarily accompanying periods of speculative excesses, today there is a tremendous "mental short position," stemming from the rampant recession atmosphere. Maintains actually there are no danger signals indicating over-speculation anywhere along the bull-market road. Predicts main body of stocks still has some distance to go, with secondary stocks taking hold, and blue chips resting.

There seems to be widespread astonishment that the short interest figures published recently were larger than the previous month, but any Wall Street veteran knows this phenomenon is not unusual. It is almost axiomatic that during the first half of a bull market, there are so many disbelievers that the short interest builds up substantially. This manifestation of "fighting the rise" is one of the best indications that, broadly speaking, the rise should continue for some time to come.

Jacques Coe

There have been occasional and unusual times in the stock market when everybody, including the porter and the taxi driver, were speculating up to their ears —when brokers' loans were up in the stratosphere, and where there was a market vulnerability which needed but a whisper to start the ball rolling down hill.

Today, in the writer's opinion, we have exactly the opposite situation. There has been created what one might describe as a tremendous "mental short position" in the market. That is to say, so many people want to be long of securities, but they have not been able to rationalize the recent market strength, especially while the country was supposed to be in the midst of a business recession.

These people not only have **not** bought—but in fact have liquidated many of their holdings and now are "sold out" bulls. Eventually when the business news gets better and begins to catch up to the improved security price level, there will be a public scramble. To put it bluntly, these serious thinkers who live only in the past and present, should become reconciled to the fact that **time, tide and the Stock Market wait for no man!**

There are two schools of thought as to how the Nation's economy should be managed. Planners in the Democratic Administration strongly were inclined to follow the path of heavy governmental expenditures. In this way (they figured) the masses would increase their purchasing power and in logical sequence bring about nation wide prosperity. Investment and risk capital does not believe in this kind of artificial prosperity.

The policy of the present money managers is more fundamental. They reason that one should begin by relieving industry from onerous taxes. They also subscribe to the policy of more generous depletion and depreciation exemptions so that the profit motive once again becomes the dominant factor. Once industry has its confidence restored, a natural sequence is full employment for the workingmen. Both approaches attempt to achieve the same result. One works from the top down and the other from the bottom up. It does not need any genius to determine that the latter method is the sound one.

One could liken the first method to that of a doctor who administers sedatives and opiates to a critically ill patient, hoping to deaden the pain and temporarily make him feel better. The throwback from this nostrum can be fatal. The second method is to work down to the focal point of the infection, operate if necessary, eliminate the harmful, disturbing elements and make the patient sound and well once again.

The Return of Confidence

Investment and risk capital had little confidence in the Roosevelt-Truman economic blueprints for reasons which it is unnecessary to rehash. Now things are different. There is prevalent among the managers of important reserviors of capital genuine confidence that this capital will get a square deal, and that business will continue to move out of government control and back to private enterprise.

The fundamental reason why there has been no fear of a business depression among the money managers or risk capital is because they have every confidence in the Administration's power — the wherewithal—and more important, the **know how** with which to prevent any serious backsliding. The chances are that relatively few, if any, emergency moves will be made in the direction of forced stimulation to our economy. In time, the natural necessity of the pipelines to be filled, will bring with it a salutary resumption of increased business activity.

No Overspeculation

Strangely enough — notwith-

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Borg-Warner—Corporation of Parts

By IRA U. COBLEIGH
Enterprise Economist

A transmission of some current views on this distinguished and dynamic manufacturer of automotive and aviation parts, and household appliances.

There's a lot of over-drive in Borg-Warner. This renowned company racked up, for 1953, its best year in history. A broad manufacturing program, top-flight research, judicious but impressive plant expansion, and aggressive salesmanship rocketed gross sales to $407 million (up 15% from 1952) and created almost $24 million of net, equal to $9.77 per share on the common. This, mind you, after dishing out to Uncle Sam around $2 in that now defunct and ever-unpopular debit, E. P. T.

Ira U. Cobleigh

While it has been the custom, among most analysts, to classify auto parts manufacturers as cyclical corporations, due to their heavy dependence on motor car output, Borg-Warner has so broadened its output and fields of endeavor, as to reduce substantially this traditional cyclical factor. Although automotive products accounted for some 58% of sales, aviation products were 10.25%, farm equipment components 7%, and home appliances around 12% (balance, miscellaneous).

In the automotive section we have all noticed how shiftless the American driving public has become! More and more the new models, even of the lowest priced makes, are featuring automatic transmissions, and this trend is right down Borg-Warner's alley (gasoline alley, perhaps?). For years B-W has made clutches, and gear shift units—among the best in the business—and it has also pioneered in the automatic transmission field. General Motors makes its own, but for other makers, B-W produces totally almost half of the automatic drive units. It has contracts with Ford (for roughly one-half of its requirements), Studebaker, and Hudson, and is completing a new plant in Decatur, Ill., which can deliver 1,000 transmissions a day; and will step up over-all production capacity for these units by 60%.

B-W is an exclusive manufacturer of over-drives, a device for smoother performance at high speeds, and for greater economy. In 1952, 15% of all cars manufactured were over-drive equipped. Other less heralded, but even more essential automotive items delivered by B-W would include gears, timing chains, propeller shafts, differentials, pumps and carburetors. Primarily B-W is a supplier of original equipment, rather than parts for replacement.

The Norge Division delivers such household appliances as refrigerators, ranges, washers, dryers, water heaters, gas and electric ranges. The whole appliance industry was in a down-trend in 1953; and Norge dipped with the rest. The 1954 outlook, however, is much improved by virtue of a reorganization of selling, the formation (late last year) of B-W Acceptance Corp. to finance dealer inventories, and the introduction, last December, of a new freezer-refrigerator unit with separate doors to each compartment. January 1954 sales for Norge showed an important improvement over 1953.

Continuing to stress the theme of prowess and progress in new lines, a new division, Hydraline Products, was created in 1953 to develop and merchandise air conditioners providing, from the same unit, hot water heating in winter, and cold water cooking in summer. Air conditioning, country-wide, is increasing fabulously, and this new water technique may open up dramatic new areas of profitability. Another division, Ingersoll Products, is experimenting with a switch-heating furnace able to burn either oil or gas. Some of our big electric power generating stations already have similar conversion burners.

The most recent pioneering at B-W involves entry into the plastic field. At Gary, Indiana, a subsidiary, the Marbon Corp., is producing a thermoplastic resin with unusual resistance to heat and wear. It's called "cycolac," and, for openers, it's being worked into golf clubs and radio cabinets. When established, however, it should have dozens of uses; in pipes, because it can be heated to 400° before melting, and in many unit parts for autos, aircraft and appliances. They're trying out the golf club right now and it's so tough even a duffer can't louse up its driving face. Maybe it will usher in the day of a plastic par for the week-end clubman!

Well, this piece wasn't intended to rival the catalog of ships found in the Iliad, so let's move on from product patter and gaze for a moment on some equally impressive, and to share buyers, perhaps more interesting, financial forward motion which B-W has been able to generate through the years. Borg-Warner was formed in 1928 and has demonstrated its essential economic soundness by paying a dividend every year since. During this 25-year stretch, roughly 52% of net has been distributed in cash dividends, a fact explaining with great clarity the manner in which the company has been able to finance luxuriant growth and expansion, without recourse to debt. There was, in 1946, a $20 million offering of 3½% preferred, $4 million of which has been retired by sinking fund. If you care for preferreds, this is about as good an industrial one as you'll find—it sells at 96 to yield 3.65%.

We were talking about expansion from undistributed earnings. This has been extensive—$14 million in 1952 and $12.6 million in 1953. In a joint statement recently, Mr. C. S. Davis, Chairman, and Mr. Roy C. Ingersoll, President, fairly exuded optimism, both about general business conditions, and the outlook for Borg-Warner in particular when they announced an expenditure, for 1954, of a whacking $20 million on plant and equipment. Depression-mooded business cyclists, please note!

There are outstanding and listed on the NYSE, 2,396,289 B-W common shares. This total is a result of a 2-1 stock split in 1937. The shares, since 1945, have ranged from 36 to 86 and at the present quote of 82½ affords a yield of 6% on the indicated $5 dividend ($4 regular and $1 extra).

For a number of years B-W has been able to average a profit margin above 16% on sales, and it has consistently offered a balance sheet revealing magnificient solvency. The 1953 year-end showed total assets of $260 million, of which $80 million was in such sturdy items as cash, U. S. and Canadian bonds. Earned surplus stood at 137½ million. Should business recede further, B-W appears far better equipped defensively than most in its trade.

There is every indication that 1954 will be a less favorable one for automobile manufacture than 1953, which saw 6.1 million cars roll off the assembly lines. On this projection, involving perhaps a 15% decline in units produced, many suppliers of original parts expect a somewhat lower sales volume; and competition and possible price concessions may become more acute. Against this trend, Borg-Warner would seem to have certain offsets because of the steadily increasing percentage of new cars with power automatically transmitted, and the expanding popularity of over-drive, a B-W exclusive. On the record, Borg-Warner has proved its ability to manufacture, sell, and earn profits at virtually every stage in a quite cyclical industry.

As a matter of fact, while B-W would appear to be one of the most desirable in its field, the searching investor here, may find some excellent yields, and equities of considerable merit among such others as Electric Auto-Lite, Timken Roller Bearing, Clark Equipment, Electric Storage Battery and Rockwell Spring and Axle. An average yield of well above 6% is, even at present Dow Jones altitudes, available in this department of the market. But for those willing to settle for but one representative, Borg-Warner is the corporation of parts, to which many security savants would give top billing.

L. S. Smith Opens

(Special to THE FINANCIAL CHRONICLE)

FRESNO, Calif.—Loren S. Smith has opened offices in the Rowell Building to conduct an investment business. Mr. Smith was previously with Dean Witter & Co.

No Depression in Sight

By HARLOW H. CURTICE*
President of General Motors Corporation

Reiterating his confidence in continued prosperity, leading auto executive recites factors in first quarter of 1954 which indicate maintenance of present level of business activity, and which promises better outlook for the months ahead. Forecasts another good year for the automobile industry and for business in general.

Last Jan. 19th at a luncheon for business leaders in New York City, I made certain forecasts. A month ago, I reaffirmed them. By comparison with many other forecasts, they were considered optimistic—and probably they still are.

Harlow H. Curtice

Within the last two weeks, here in Chicago you have been exposed to a lot of pessimistic talk. Such talk has little support from what actually happened in the first quarter of 1954. Let's look at the facts.

While unemployment is reported to have reached 3,725,000 in the month of March, this is only slightly higher than the total reported for the previous month—so slight, in fact, that most people are inclined to the viewpoint that the rise in unemployment has been halted and that it will level off and perhaps decline in the months ahead.

As I have said before, too little attention is given to the current level of employment, which is reported to be in excess of 60 million, exclusive of personnel in the armed forces. This compares with 61 million a year ago and 57½ million in 1950 when things were also considered booming. While current employment is not at a record level, it is at the best level ever attained at this time of year with the exception of 1953.

What are some of the other factors that contributed to the over-all health of the economy in the first quarter?

First of all, consumer savings and liquid assets are at record highs. Consumer disposable income has been running higher than a year ago. Consumer spending is being maintained at a very high level, and recent excise tax cuts should be a further stimulant.

Goods now are being consumed at a faster rate than they are being produced. In other words, inventories, where excessive, are being brought into line with the current level of retail business. Investment expenditures are being maintained at a high level comparable to 1953. According to a recent Department of Commerce survey of business intentions, contemplated outlays for plant and equipment in 1954 are expected to equal actual expenditures in 1953.

Total construction expenditures in the first quarter reached record figures. Most significant was the fact that the new high of $7.300 billion, was achieved despite a drop in spending by government agencies.

Industrial and commercial construction was up about 7% compared to the first quarter of 1953, public utility construction up 9%, while private residential building was slightly higher than a year ago.

The prospects for a continued high level of construction expenditures are good. Housing starts remain high, while non-residential construction awards for the first quarter were up substantially from 1953.

The gross national product in the first quarter held to a rate very near last year's all-time high level, despite a substantial decline in defense spending. This indicates that the nation is readjusting from a part-war to a peace economy on a very sound, orderly basis. Consumers have failed to be disturbed by all the gloomy forecasts about the economic outlook. While the experts have been arguing whether we are in a depression, recession, readjustment or what have you, consumers have been cheerfully treating the present for what it is—a period of unusual prosperity. They have never been so well off. Nor would they keep on spending as freely as they have been if they expected incomes or prices to drop substantially.

The first quarter showing did not surprise me. The biggest single factor in the whole economic picture is the automobile and related industries. Activity in the automobile industry, both with respect to factory sales and retail deliveries, is pretty well in line with the forecast which I made last January. In other words, the domestic market is absorbing passenger cars and trucks at an annual rate in the area of 6,300,000 units.

General Motors Results

While we have not completed our report on the first quarter activities of General Motors, I can give you a glimpse of the results.

General Motors' business in the first quarter was good.

Our average employment was 574 thousand—30 thousand higher than for the first quarter of 1953 and an all-time record for the period.

Our payrolls for the first quarter reached a total of $656 million, including $23 million in overtime premiums.

Unit production of passenger cars and trucks in our United States and Canadian plants totaled 877 thousand. Production of passenger cars in United States plants alone was 706 thousand units. This represented the highest first quarter passenger car production in the history of General Motors. It was 2% higher than the previous record set in 1953.

Retail deliveries by our dealers in the first quarter were 95% of the high level of retail deliveries attained in the same period of 1953 — and this despite the fact that three of our divisions did not announce their new models until late in January and were not in full production of all lines and models until the quarter was well underway. Currently, retail deliveries of passenger cars are running ahead of last year.

Our sales in dollars for all commercial and defense products in the quarter ended March 31, 1954, reached a total of $2,410 millions. This compares with $2.547 millions for the first quarter of 1953, and is in line with my forecast of last January 19 — which, you may recall, was that "General Motors' volume of sales in physical and dollar terms in 1954 should not be far from the high level attained in 1953."

To sum up, I would like to repeat what I have said before. This will be another good year for the automobile industry and for business in general. No depression is in my vision. On the contrary, I believe that business generally will still further improve as the year progresses.

*Remarks by Mr. Curtice at the Chicago Motorama Press Conference, Chicago, Ill., April 22, 1954.

The State of Trade and Industry

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

A moderately lower trend was noted in total volume of industrial production in the period ended on Wednesday of last week. Output held about 10% under the level of a year ago, but the industrial picture varied from area to area, it was reported.

Increasing evidence that new orders are on the rise was revealed by the National Association of Purchasing Agents. It disclosed that for the second straight month more companies in April noted gains in bookings and production than reported declines.

The employment picture for the week shows that total unemployment compensation claims increased for the week and initial claims rose 32% above those of the preceding week. Compared with a year ago they were 85% higher and more than cancelled the smaller number of continued claims which declined 1% from the previous week.

It was further reported that some of the increase in initial claims could be accounted for by administrative changes in unemployment procedures made by four states in earlier April. Curtailed unemployment was most noticeable in apparel, shoe and textile industries.

The steelmaking scrap market continued to kick up its heels this week for the sixth week in a row, states "The Iron Age," national metalworking weekly. Increases raised this magazine's steel scrap composite price 50c a ton to $26.17 per gross ton, it notes.

The steel market looks a bit stronger this week, but it still does not fully reflect the bullishness in scrap. This is not surprising, as scrap price increases should be partially discounted as adjustments within that industry. They are not directly or totally related to present and future demand for steel, it asserts.

While the steel market is very spotty, and the ingot rate is holding steady, the tone of the market is stronger this week. Warehouse demand, which had been flat on its back, has picked up noticeably. This is especially true of larger warehouses and chains, it further comments.

A check on warehouse sales shows only mild improvement in customers' demand at this retail level. The pickup is attributable partly to progress in inventory correction and partly to desire of distributors not to let stocks get too low during a period of steel wage contract bargaining.

Mild strike-hedge buying has also been detected in some steel consuming industries including automotive. This is not yet an important factor in the market. But by next month it might be, states this trade authority.

Mill inventories of semi-finished steel are in good shape. At least one mill actually pushed up its operating rate to rebuild its inventory of semi-finished after going through a long inventory reduction period.

A surprising portion of mill sales in the past month has been based on meeting delivery promises of 30 days or less. Many deliveries have actually been promised and made within two or three weeks. Demands for quick delivery are growing rather than diminishing and steel buyers remain very cautious, continues this trade publication.

A series of price reductions was touched off in the Detroit market last Friday when one producer there lowered prices on all its products by $1 a ton. Other Detroit steelmakers quickly matched these reductions, and out-of-area companies began absorbing $1 a ton more freight in order to sell in that area. The price action in the Detroit area is local and is not likely to spread to other areas. The producer that first lowered prices still charges $3 a ton more than producers in Pittsburgh and Chicago for most of the products it makes, concludes this trade weekly.

Domestic automotive production climbed 5% in the week ended April 24, to a 34-week high of 146,177 units, "Ward's Automotive Reports" stated.

The week's United States car and truck output was 5% over the preceding week's 139,624 and the highest since week ended

Continued on page 38

Germany—Then and Now

By A. WILFRED MAY

Mr. May shows how after First World War, following devaluation and inflation, operation of the Dawes Plan ended in disastrous deflation, unemployment, depression, and default. Lists salutary effects of West's contrasting attitude toward Germany after Second World War, manifested in abstention from heavy reparations demands, in granting of capital loans on long-term basis, and permission to follow free economic policies. Cites stimulation from foreign aid. Lists some accompanying negative factors, as lack of capital market, dollar gap, and vulnerability of exports. Concludes Germany has fair chance of standing on her own feet and meeting her foreign obligations.

BERLIN, Germany — To what extent has the revival of the German economy between 1948 and 1953 been on a sounder basis than the recovery of 1923 to 1930? What difference in the status of her external bonds, then and now?

A. Wilfred May

First, let us recapture the salient elements in the earlier situation.

The immense demands for reparations which were imposed on Germany after the first World War, and which Germany had to meet largely in dollars, caused the German Government immediately after that War to be obliged currently to buy sterling and dollars against delivery of its marks. Accordingly, as Germany had to buy dollars currently against marks without foreigners being prepared to buy German goods to a like extent against dollars, the reparations burden was bound to lead to devaluation of the German currency. This devaluation was made all the greater when, as the mark became increasingly valueless, German residents also wished to put their money into dollars.

The Catastrophic Impact of Reparations

This led to the catastrophic post-World War One inflation. The vicious circle was not ended until the mark had been converted in the ratio of one trillion to one; and until the reparations payments had been first completely suspended and then reorganized under the Dawes Plan.

The most important point in the Dawes Plan was the arrangement that, while Germany had to produce reparation payments in its domestic currency, the Reichsmark, the exchange of these Reichsmarks into dollars was to be effected by the Agent General for Reparations Payments only in such measure as surpluses had arisen on the current balance of payments.

The policy of deflation that followed did in fact produce large balance of payments surpluses. Within a short time confidence in the German currency was so great that even private banks in other countries employed their funds in Germany, particularly because of the much higher interest rates. This influx of short-term foreign credits gave rise to further offering of foreign currencies. Thus the Agent General currently recorded substantial surpluses on the balance of payments, and was able, in the manner laid down, to transfer considerable sums in discharge of the reparations liabilities.

But these were not genuine discharges of liability. In this 1923-1930 period the German Government paid the reparation debts, not through the natural transfer of goods, but only with the foreign currencies which private banks in other countries had *lent* to German banks, firms, local authorities and others.

Three Fundamental Dangers

This process entailed three basic dangers:

(1) The greater the deflationary pressure, the greater were the balance of payments surpluses, and, as the Agent General supposed, the greater was the ability of Germany to pay reparations. In reality deflation meant unemployment. The Dawes Plan in fact contained the fundamental fault that Germany had to pay more reparations in proportion to the country's increase in deflation and unemployment.

(2) The German banks, for their part, of course re-lent the deposits which reached them from abroad. They were able to call back these loans in every individual case. But when **all** the foreign monies were suddenly withdrawn, they had to call back all such loans at once, which was in practice obviously impossible.

(3) Even if the German commercial banks had collected what they had lent, the German Reichsbank could not have provided them with enough foreign exchange to transfer the currency abroad.

Impact of U. S. Depression

All these dangers were already known in Germany in 1929. Nevertheless Germany could not escape her fate and, immediately recession started in the United States, she suffered all of these unpleasant contingencies. The foreign funds were withdrawn; many German banks had to close their doors; the Reichsbank had to ration its stocks of foreign exchange; and the compulsion to achieve balance of payments surpluses in order to pay reparations, that is to follow a deflationary policy, increased unemployment.

The ultimate result at that earlier period was that Germany had 6.3 million unemployed; and leading people there saw no way out except to entrust the conduct of policy to a "strong cabinet." That is how the "presidial cabinet" of the "National Front" was presented to President Hindenburg in the well-known events of early 1933. It was headed by Adolf Hitler as the leader of the radical party which had become the strongest party in the period of unemployment.

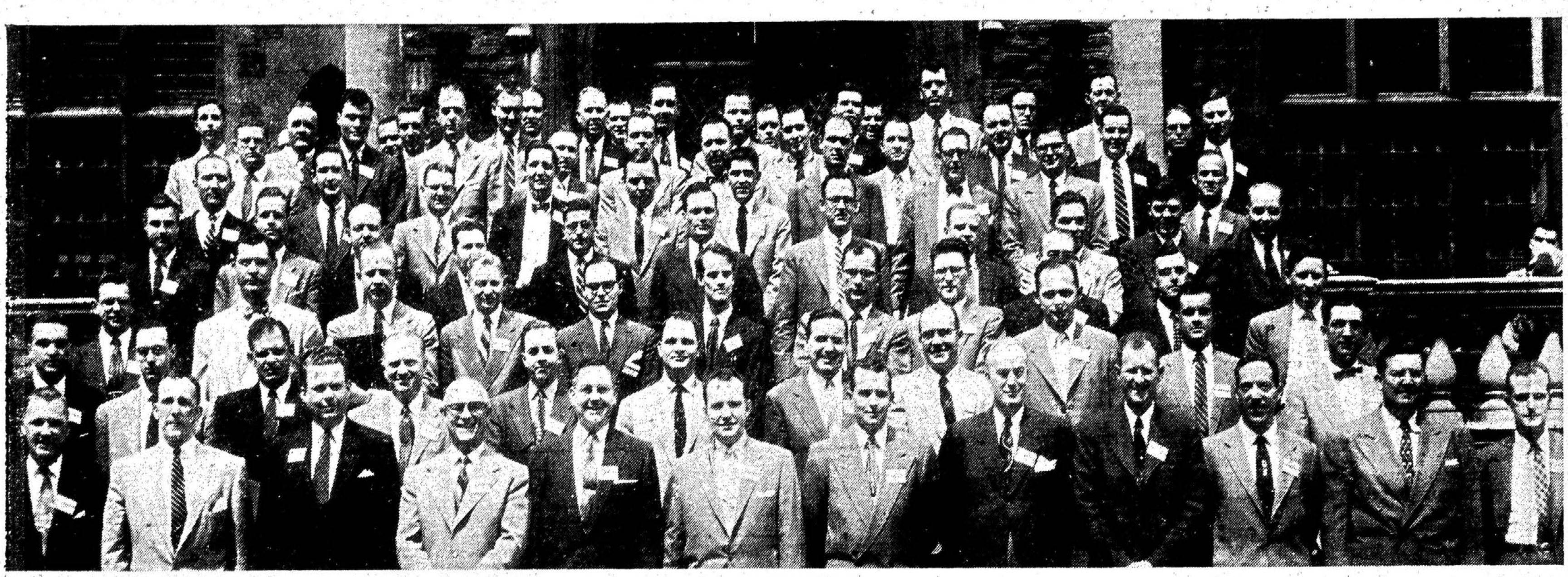
* * *

The Contrast After World War Two

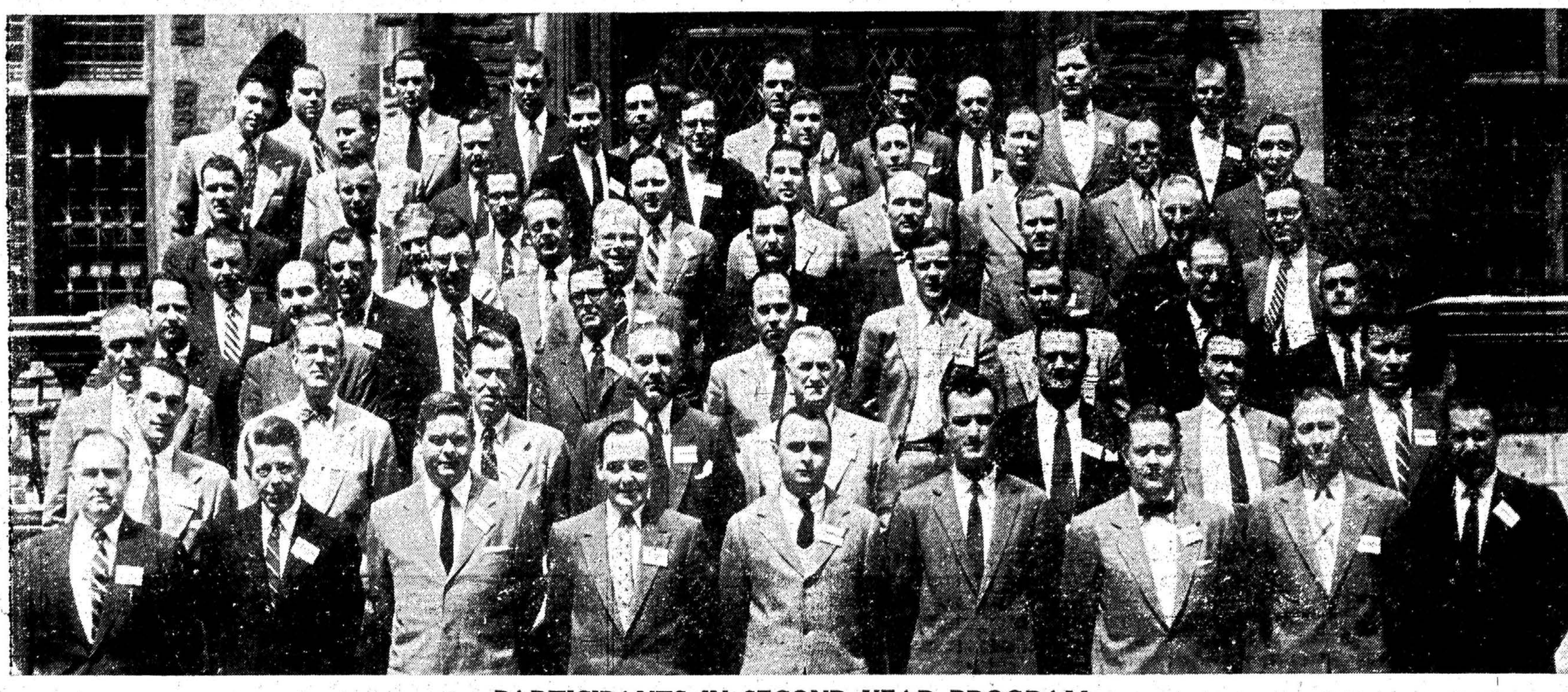
Thanks to the far-sighted policy of the Western powers, there have been no such reparation demands since the second world war. The capital lent to the Germans has been granted on a long-term basis. The balance of payments surpluses which they are achieving are based on "genuine" surpluses on trade in goods, services and the like. Germany is at liberty to follow such course of economic policy as it deems right for avoiding unemployment, and even feels able to resist for some

Continued on page 40

In Attendance at IBA Investment Banking Seminars



PARTICIPANTS IN FIRST YEAR PROGRAM



PARTICIPANTS IN SECOND YEAR PROGRAM

Investment Bankers Association Holds 2nd Session of Inv. Banking Institute

CHICAGO, Ill.—One hundred ninety representatives of Investment Bankers Association member firms attended the second annual session of the Institute of Investment Banking held at the University of Pennsylvania during the week of April 12, according to T. Jerrold Bryce, Clark, Dodge & Co., New York, President, Investment Bankers Association of America.

The Institute offers a three-year executive development program for partners and officers of IBA member firms, and other personnel being trained for positions of increasing responsibility. It is sponsored by the Education Committee of the Association in cooperation with the Wharton School of Finance and Commerce.

W. Carroll Mead, Mead, Miller & Co., Baltimore, is Chairman of the IBA Education Committee and Chairman of the Institute Planning Committee.

The project is an outgrowth of the highly successful Investment Banking Seminars held in Philadelphia in 1951 and 1952 under the leadership of Norman Smith, Merrill Lynch, Pierce, Fenner & Beane, New York, who was at that time Chairman of the IBA Education Committee. The Seminars provided a one-week refresher course for seasoned personnel. The response by the industry to the two-year Seminar experiment was most favorable and led to the establishment of the Institute in the Spring of 1953 to provide a permanent and more extensive training program for the securities business.

Two programs were offered in 1954, the first year curriculum for those just enrolling in the Institute, and a second-year curriculum for those who attended the 1953 session. In the Spring of 1955, the Institute will offer first year, second year and third year programs for the first time.

With the inauguration of the three-year Institute program, enrollments for this training course have increased markedly:

1951 Seminar	106
1952 Seminar	101
1953 Institute	143
1954 Institute	*190

*First year course 112; second year course 78.

Registrants are quartered in the Penn-Sherwood Hotel and attend a series of integrated classes on the University campus one week each spring for three consecutive years. Upon completion of the three-year program, a Certificate of Merit is awarded in recognition of specialized training in the investment banking business.

Significant topics on the 1954 program included:

First Year Program

Recruiting and Selecting Personnel; Sales Training Methods.

Public Relations; Advertising; Available IBA Tools to Increase Business; Selling Techniques.

Management Control of Securities Firms — A Panel Discussion.

Trends in Over-the-Counter Markets; New Forces in Securities Markets.

Tools of Economic Analysis; Determinants of the Level of Business Activity; Economic Stabilization.

Mutual Funds—Advantages and Problems.

Second Year Program

Institutional Investment Practices; Commercial Banks, Life Insurance Companies, Fire and Casualty Companies; Mutual Funds and Pension Funds.

Legal, Regulatory and Legislative Problems: Self-Regulation, Federal Regulation and Legal Problems.

Investment Banking Operational Problems: Underwriting; Syndicate Techniques; Trading; Public Offering of Stock in a Privately Owned Company—A case study.

Banking System and the Money Market; Government and Interest Rates; Interest Rate Determinants and Projections.

Combined First and Second Year

Off-Street Parking Bonds; Toll Road Bonds.

The Natural Gas Industry; Whither Electronics.

Current Economic Problems—Growth Stocks in the 1951-54 Market; Economic Outlook.

It is the aim of the Institute to familiarize the registrants with current developments and problems affecting the Investment Banking business, to develop leadership and foster efficiency in all phases of investment house operations. Authoritative speakers and discussion leaders drawn from the securities field and from business, government and educational circles, presented significant topics of current interest. The Institute also provides an excellent opportunity for meeting investment people from all sections of the country.

In 1955, the third year course will be offered for the first time. It is presently contemplated that this third year program will include the following subjects:

The Influence of Taxation on the Securities Business.
Trends in Corporate Financial Policies.
The Changing Role of Investment Bankers.
Investment Policies of Various Investor Groups.
Foreign Investment Problems.
Basic Factors in Investment Analysis.
New Developments in Selected Industries.
Current Economic Problems.
The Economic Outlook.

Some Aspects of The Business Situation

By HARRY A. BULLIS
Chairman of the Board, General Mills, Inc.

Prominent industrialist reviews both favorable and unfavorable aspects of the current business situation, and concludes, though the gradual transition from high war-time expenditures to lower government spending is being accomplished in an orderly fashion and is proof of the underlying stability of the economy, no one can say when the decline in business will have run its course.

We have had talk of "recession" for some time. Perhaps the best way to dispel the concern that people do have is to make a quick review of how well we are producing in the United States at this time and how much of this production we are consuming. Then we can attempt to ascertain the reason for the three and one-third per cent recession we have had.

Harry A. Bullis

Unfavorable Aspects

Let us start out by looking at some of the unfavorable aspects of the current business situation. There are about 3,600,000 unemployed. Production of goods is less than a year ago. Railroad car loadings are off. Inventories, particularly in retail lines, continue to be high. Selling has become very competitive.

Favorable Aspects

However, there are also definitely favorable aspects in the general picture. For one thing, there has been no reduction in consumer expenditures. Consumption is running ahead of production and inventories are being reduced.

Steel is a good example. Since consumer purchases and total construction in the United States have not declined from last year's levels, we can assume that products are being fabricated of steel at a rate as high as a year ago. In other words, the consumption of steel apparently has not declined greatly but steel production is reported to be only about 67% of capacity. The excess of consumption over production comes out of stocks and inventories.

The same situation prevails with respect to other products. We had high inventories and, as the goods moved into consumption, we failed to buy and to put back into inventories as much goods as we used. The result was a temporary drop in output and, as a consequence, we have the current recession and the moderate increase in unemployment.

Since there has been no decline in the total flow of goods into consumption and the total amount of construction of houses and new plant and equipment is being maintained, production rates will have to move up again as soon as inventories have been reduced.

Personal income is running at an annual rate which is above last year by $2 or $3 billion, but there has been a tendency for individuals to repay existing debts before they undertake new obligations.

The steady rise in the construction of new homes in the face of the business downturn is encouraging. The amount of new houses reached 1,180,000 in February, the highest figure in the past 12 months. About ⅔ of our dwelling units are now over 20 years old. Half of them are over 30 years old. Therefore the demand for new homes has a sound foundation.

Another encouraging sign of business improvement comes from the automobile industry. The March output of 524,000 cars was the largest of any month since October. The industry has scheduled second quarter production at a rate 7% higher than for the first three months of this year. In fact, the automobile industry is today producing cars and trucks at the rate of 6½ million per year. The output for the calendar year 1954 will probably be in the neighborhood of 6 million cars and trucks. Thus, despite the recession, this may be the third best year the automobile industry has ever had.

Plans of industry for new plants and equipment are only 4% below 1953 levels. Construction of factories and public utility plants has not declined, and the purchase of equipment for factories and plants continues at a high level. Local government spending for schools, highways, and other projects is expected to be about $2 billion greater than last year.

Total production in the United States (Gross National Production) was at an all-time high rate of $372 billion in the second quarter of 1953. In the first quarter of this year it was $359 billion. This is a decline of 3.3%, which can be compared with the decline of 4¼% we had in Gross National Production in the recession of 1949. At that time we had an unemployment peak of 4,700,000.

Purchases by consumers have held up very well. There has been a slight decline in retail sales which was offset by larger purchases of services.

Decrease in Business Inventories

Business inventories declined $3 billion during the fourth quarter of 1953. The trend has continued for the first quarter of 1954.

It is quite evident that we are taking goods out of warehouses and moving them into the stream of consumption which is continuing at a high rate. Part of this comes about through working off stocks of raw materials which will not be needed for war contracts, and part of it is in consumer goods where inventories have accumulated too heavily.

Decline in Defense Expenditures

It is probable that the reduction in contracts for military goods and equipment has been a primary cause of unemployment, which is the unescapable price we have to pay for reducing our defense outlays. In the second quarter of 1953, annual expenditures for defense and war goods were running at an annual rate of $53 billion. It would appear that such expenditures will be reduced to about $45 billion by June of this year. This reduction of about $8 billion will be almost offset by concurrent reductions in taxes. We now have some $7.3 billion of tax reductions. Almost ⅔ of that amount will benefit individuals and the remainder will benefit corporations. This is the result of reductions in personal income taxes and excise taxes, together with the elimination of the excess profits tax on corporations. Thus it will be seen that the reductions in taxes will leave more money with consumers and companies, which should permit the entire economy to purchase goods and services in an amount sufficient to offset the reduction in purchases for war and defense purposes.

Credit to Consumers

As another encouragement to consumers, the Administration has created favorable credit conditions to finance the purchase of consumer durable goods, such as automobiles and electric refrigerators, as well as to purchase new homes. In a country such as ours, which can produce at high levels, it is necessary that production be adequately financed. Also, it is just as desirable and beneficial that we finance the sales of durable goods. In other words, the financing of consumption adds to the welfare of the country just as truly as does the financing of production.

Although consumer credits are large, they are a factor in encouraging people to save. This is true, because bankers are prudent in granting credits and the period of time is generally considerably less than the life of the asset on which they lend. Consequently borrowers are actually saving the amounts which they pay on goods which they own and their debts are paid up before the assets are used up or worn out.

Foreign Trade

Another important item is our foreign trade and investment. Purchases made by countries overseas have been very well maintained, and we are now buying goods from abroad in amounts which approximately balance their purchases from us. We have continued to make certain grants to other countries. This has permitted some of the countries, particularly those of Western Europe, to increase their reserves of gold and dollars so their financial condition has improved.

In this connection, President Eisenhower has made certain recommendations for the reduction of tariffs and the extension of trade agreements, as well as the simplification of customs administration and procedures. While the problem of tariffs is important, it is also important that we eliminate the red tape which interferes with our trade with other countries. We need export markets for our surplus products and we also need the raw materials which come from abroad. While we must concentrate on continuing to build a sound economy at home, we also want our allies and friends overseas to build strong economies.

Government Purchases

Government still continues to take a large proportion of our national production. Total government purchases of goods and services are running at the rate of about $86 billion annually. The purchases of the Federal Government are about $60 billion. Of this amount, about $52 billion is for national security and defense and $8 billion is expended for other types of goods and services.

Spending by state and local governments is at a rate of about $26 billion annually.

The expenditures of our national government for purposes other than national security and defense are rising slightly, principally because of farm price supports. State and local governments are increasing their expenditures, a large part of which go for schools, highways, and improved municipal equipment. The financing of super highways and toll roads shows a total of approximately $1½ billion.

Population

Another great force is the rapidly growing population. It will increase greatly the total demand on our economy. Particularly our expanding population will enlarge the total demand for food and, as incomes rise, make for a better diet of superior quality.

Conclusion

No one can say when the decline in business will have run its course. Recently one steel company Republic Steel) reported that its bookings were at the lowest point last October; however, they have been gaining somewhat recently. This, together

Continued on page 46

Dealer-Broker Investment Recommendations & Literature

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

Area Resources—Booklet describing resources of Utah, Idaho, Wyoming and Colorado—Dept. K, Utah Power & Light Co., Box 899, Salt Lake City 10, Utah.

Automation—Discussion—Ross, Knowles & Co., Ltd., 330 Bay Street, Toronto 1, Ont., Canada. Also in the same bulletin is an analysis of the **Textile Industry.**

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

Life Insurance Company Stocks—Brochure of data on 11 selected companies—The First Boston Corp., 100 Broadway, New York 5, N. Y. Also available is a bulletin of comparative figures at March 31, 1954 of **New York City Bank Stocks.**

New York City Bank Stocks—Comparison and analysis for first quarter of 1954—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Over-the-Counter Index—Folder showing an up-to-date comparison between the listed industrial stocks used in the Dow-Jones Averages and the 35 over-the-counter industrial stocks used in the National Quotation Bureau Averages, both as to yield and market performance over a 13-year period — National Quotation Bureau, Inc., 46 Front Street, New York 4, N. Y.

Pulp Industry in Japan—Analysis in current issue of Nomura's Investors Beacon—Nomura Securities Co., Ltd., 61 Broadway, New York 6, N. Y. Also in the same issue are analyses of the **Electric Wire and Cable Industry and Spinning Industry** and discussions of **Investment Trusts in Japanese Economy** and current foreign trade.

Stock Price Levels—On the Tokyo Stock Exchange—In current issue of Weekly Stock Bulletin—The Nikko Securities Co., Ltd., 4, 1-chome, Marunouchi, Chiyoda-ku, Tokyo, Japan.

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Aluminium Limited—Analysis—Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

American Marietta Co.—Memorandum—A. C. Allyn & Co., 122 South La Salle Street, Chicago 3, Ill. Also available is a memorandum on **Sundstrand Machine Tool Co.**

American Marietta Company — Study — New York Hanseatic Corporation, 120 Broadway, New York 5, N. Y. Also available is an analysis of **Central Indiana Gas.**

Atomic Instrument Company—Analysis—Amott, Baker & Co., Inc., 150 Broadway, New York 38, N. Y.

Baltimore & Ohio Railroad Company—Bulletin (No. 161)—Smith, Barney & Co., 14 Wall Street, New York 5, N. Y. Also available is a discussion (Bulletin No. 160) of 1953 Railroad Margins of Safety, and memoranda on **Amerada Petroleum, Sunbeam Corp., Texas Pacific Land Trust** and **Weyerhaeuser Timber Co.**

Braniff Airways—Analysis—Ferris & Co., First National Bank Building, Dallas 1, Texas.

Central Indiana Gas Company—Bulletin—Link, Gorman, Peck & Co., 208 South La Salle Street, Chicago 4, Ill.

Central Maine Power Co. — Analysis — Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Cobalt Chemicals Limited — Information — McCoy & Willard, 30 Federal Street, Boston 10, Mass.

Columbia Gas System—Card memorandum—Burnham & Company, 15 Broad Street, New York 5, N. Y.

Fairchild Camera and Instrument Corp.—Analysis—$2 per copy—John H. Lewis & Co., 63 Wall Street, New York 5, N. Y.

Gardner-Denver Company—Bulletin — Gartley & Associates, Inc., 68 William Street, New York 5, N. Y. Also available is a bulletin on **Affiliated Gas Equipment, Inc.**

General Beverages, Inc.—Analysis—Aetna Securities Corp., 111 Broadway, New York 6, N. Y. Also available is a memorandum on **Automatic Firing Corp.**

Home Improvement Financing Corporation—Analysis—George A. Searight, 115 Broadway, New York 6, N. Y.

Hugo Stinnes—Circular—Oppenheimer & Co., 25 Broad Street, New York 4, N. Y.

Illinois Central Railroad—Memorandum—Shearson, Hammill & Co., 14 Wall Street, New York 5, N. Y.

International Nickel—Data—Bache & Co., 36 Wall Street, New York 5, N. Y. Also in the same bulletin are data on **The Gamewell Co.** and **Royal Dutch Petroleum.**

Jones & Laughlin Steel Corp.—Memorandum—Herzfeld & Stern, 30 Broad Street, New York 4, N. Y.

National Aluminate Corp.—Memorandum—Blunt Ellis & Simmons, 208 South La Salle Street, Chicago 4, Ill.

National Steel Corporation — Annual report—National Steel Corp., Grant Building, Pittsburgh, Pa.

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

New England Lime Co.—Analysis—Dayton Haigney & Co., Inc. 75 Federal Street, Boston 10, Mass.

Petroleum Service Incorporated—Analysis—Garrett and Company, Fidelity Union Life Building, Dallas 1, Tex.

Remington Arms Co.—Memorandum—Jones, Kreeger & Hewitt, 1625 Eye Street, Washington 6, D. C.

Revere Copper & Brass—Analysis—Cohu & Co., 1 Wall Street, New York 5, N. Y.

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

Royal Dutch Petroleum Company—Analysis—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

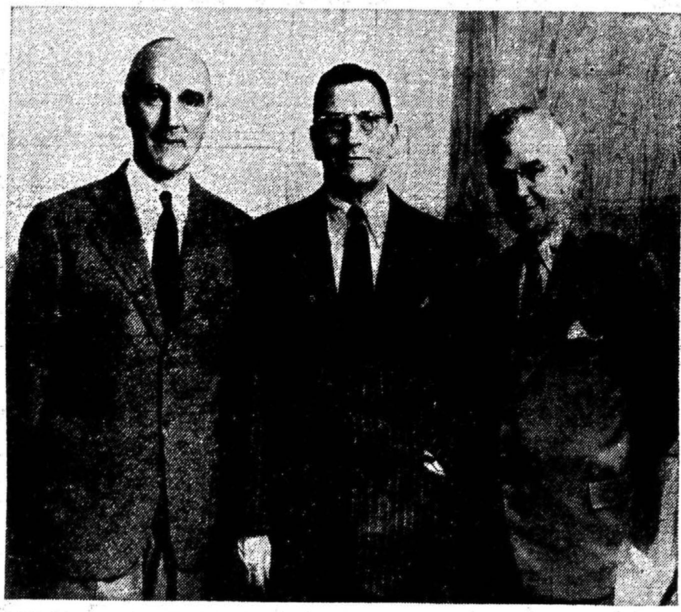
Southern Railway Company—Analysis—Stanley Heller & Co., 30 Pine Street, New York 5, N. Y.

Sylvania Electric Products—Brief analysis—Thomson & McKinnon, 11 Wall Street, New York 5, N. Y. Also available in the same bulletin are brief analyses of **Publicker Industries, Ashland Oil & Refining, National Gypsum, Public Service Electric & Gas** and **Clinton Foods, Inc.**

Texas Eastern Transmission Corp.—Memorandum—G. A. Saxton & Co., 70 Pine Street, New York 5, N. Y.

Vitro Corporation of America — Analysis—Vickers Brothers, 52 Wall Street, New York 5, N. Y.

Blyth Co. Celebrates 40 Years of Business



Charles R. Blyth, President (center), George C. Leib (left) and Roy L. Shurtleff (right), Vice-Presidents, three founders of Blyth & Co., Inc., nationwide investment banking concern are shown as members of the firm gathered to celebrate the firm's 40th anniversary.

SAN FRANCISCO, Calif.—The nationwide investment banking firm of Blyth & Co., Inc., this week celebrates its 40th anniversary. Representatives from all offices attended an anniversary party at Pebble Beach.

Three of the founders of Blyth & Co., Inc. who started the business in San Francisco on April 18, 1914, are still active in its management; Charles R. Blyth, President and Roy L. Shurtleff, Vice-President, who make their headquarters in San Francisco, and George C. Leib, Vice-President, who makes his headquarters in New York.

Starting in San Francisco, the firm later opened an office in Los Angeles in January, 1916. In 1919 the firm broke all precedent by expanding from west to east and established a New York office. In subsequent expansion the firm established offices in Seattle, Washington; Portland, Oregon; Chicago, Illinois; Philadelphia, Pa.; Boston, Mass. and other important financial centers throughout the country. From a small beginning the firm has grown until today it has offices in 23 cities throughout the United States.

Charles R. Blyth in his anniversary message to the staff stated: "Investment banking is a product, as it is a necessity, of 20th century civilization and has certainly developed extensively and usefully in the United States.

"Money is the lifeblood of modern society and enormous sums are required to finance the continued expansion of our national economy. This capital must be supplied in large part by investment bankers, since the amount available through banks, insurance companies and other regular lending agencies is insufficient to fill the aggregate need. The role of the investment banker is a vital one.

"What the years ahead will bring, no one can foretell exactly. But if it be true that the image of the future may be discerned in the past, it would seem safe to say that investment banking, in a free economy, will be as important in the future as it is today.

"Blyth & Co., Inc., has played a privileged part in the field of investment banking during the last 40 years. To me these results should be a proper basis for satisfaction and continued confidence. Certainly those with the firm who have been responsible for the record have learned much. Armed with greater knowledge and, I hope, wisdom, I believe we can face the future optimistically."

COMING EVENTS

In Investment Field

Apr. 29, 1954 (New York City)
Association of Customers Brokers anniversary dinner at the Hotel Roosevelt.

Apr. 29-30, 1954 (St. Louis, Mo.)
St. Louis Municipal Dealers Group annual outing.

Apr. 30-May 2, 1954 (Pasadena, Calif.)
Pasadena Bond Club annual outing and Golf Tournament at Thunderbird Country Club, Palm Springs, Calif.

May 5, 1954 (Minneapolis - St. Paul, Minn.)
Minnesota Group of Investment Bankers Association of America meeting with the officers and directors of the Ottertail Power Company in the Gold Room, Radisson Hotel, Minneapolis.

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

May 9-11, 1954 (Dallas, Tex.)
Texas Group Investment Bankers Association 19th Annual Meeting.

May 12-14, 1954 (Boston, Mass.)
Board of Governors of Association of Stock Exchange Firms meeting.

May 14, 1954 (Baltimore, Md.)
Baltimore Security Traders Association 19th annual summer outing at the Country Club of Maryland.

May 14, 1954 (Pittsburgh, Pa.)
Bond Club of Pittsburgh outing at Rolling Rock Country Club, Ligonier, Pa.

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

May 21-23, 1954 (Fresno, Calif.)
Security Traders Association of Los Angeles-San Francisco Security Traders Association joint Spring Outing at the Hacienda-Fresno.

May 21, 1954 (New York, N. Y.)
Toppers annual outing at the Montclair Golf Club.

June 4, 1954 (Chicago, Ill.)
Bond Club of Chicago 41st annual field day at the Knollwood Club, Lake Forest, Ill.

June 4, 1954 (New York City)
Bond Club of New York 30th annual field day at the Sleepy Hollow Country Club, Scarborough, N. Y.

June 8, 1954 (Detroit, Mich.)
Bond Club of Detroit summer party at the Grosse Ile Golf and Country Club.

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

June 11, 1954 (Los Angeles, Calif.)
Bond Club of Los Angeles annual field day at the Wilshire Country Club.

Growth Trends in U. S. Economy

By JOSEPH P. SPANG, JR.*
President, The Gillette Company

Mr. Spang enumerates and describes social and economic changes which are likely to expand our economy. Among these are: (1) population increase, (2) high employment; (3) high standard of living; (4) large capital outlays; and (5) widened industrial research.

Great changes are rapidly taking place in the United States today. These changes are powerful forces that will greatly expand our economy, increase overall business activity and upgrade the standard of living for everybody in the country. The long-term outlook for the United States — and by this I mean the years from 1960 to 1975—holds outstanding opportunities for all of us here today. It is very possible, for example, that by 1960 alone our national standard of living might well be about one-third higher than in 1953.

Joseph P. Spang, Jr.

Here are some of the changes taking place:

Our Population Is Showing Extraordinary Growth.—From 1947 through 1953, a period of seven years, we had over 3.5 million births a year in this country, and last year, in 1953, 4 million new babies were added to our population. This is the highest annual figure ever recorded. Every day nearly 11 thousand babies are born. In January of this year, our population totaled 161 million. By 1960 it will be close to 180 million, and by 1975 it will be in the vicinity of 215 million.

New Families Are Increasing Rapidly. — During the past two decades the increase in the number of households in the United States has been twice as great as the increase in our population. Our adult population is marrying at a younger age, and a greater proportion of them are married than ever before in our history.

Our Families Are Getting Larger.—One of the highly encouraging developments taking place today is that the tremendous number of people getting married are having a greater number of children. In 1953, for example, births of second children were 91% greater than in 1940, births of third children were 86% greater, fourth children 61% greater, and fifth children 15% greater. As a result of this, we now have 57% more children under 10 years of age in this country than in 1940.

Our Adult Population Is Living Longer Than Ever Before. — Due to our continuous advancements in medical science, there are now 42% more people over 60 in the population than there were in 1940. While the total population increased three-fold between 1870 and 1940, those over 65 increased eight-fold. By 1960, there will be 15.5 million people over 65 in this country. That's equal to the present entire population of Canada. By 1975, our population over 65 will be in the vicinity of 20 million.

As we all know, increased life expectancy means not only larger but more loyal markets, and also richer ones, as Social Security benefits, pensions, annuities, and other benefits combined with increased leisure time stimulate the demand for goods and services by the older members of the population.

Employment Is Within 3% of the Best Year in Our History and Will Rise to New High Levels.—So far this year—January through March—our total employment, including agricultural, has averaged 60 million a month. Notwithstanding all the talk about a recession, this level of employment is within 3% of our average monthly employment for the full year 1953, the best year in our history, and is only 4% lower than average monthly employment in the first quarter of last year. Total employment in the United States is today 14 million higher than the 1939 average.

By 1960, our population will total 176 million and, of this total, approximately 68 million will be in the labor force. If we look ahead to 1975, we find that our labor force will be in the vicinity of 87-89 million. Our employed labor force at that time should be close to 84.5 million.

The American Standard of Living Is Unparalleled and Unprecedented—and Will Go Higher.—Due to technological progress, represented by increased use of ever improved machines, our economy has reached staggering heights in output and income. Let us review the record. Per capita income in this country doubled between 1869 and 1889, nearly doubled between 1909 and 1942 when it reached $1,071. By 1953, it increased another 80% when per capita income reached an estimated $1,927, and this latter figure was 17% higher than the 1952 per capita income of $1,639.

Our increases in income and standard of living have been so fantastic it is difficult to appreciate them. Some idea of their magnitude can be grasped, however, when we make a comparison between ourselves and other countries. We can do this for 1948 when our per capita income was $1,525. For that same year, in other relatively advanced countries of the world, such as Switzerland, New Zealand, Canada, Australia, Sweden, Denmark, the United Kingdom, Belgium and Finland, per capita income ranged from $569 to $950 United States dollars. For the rest of the world, per capita income in United States dollars ranged from a low of $40 for Ecuador to $550 for Norway, itself one of the wealthier countries of the world. These figures certainly give an impressive demonstration of the American standard of living.

National Wealth Is at the Highest Level in History and Should Increase 25% by 1960 and 90% by 1975.— Our national productivity (or gross national product) in 1953 was $368 billion. In terms of 1953 dollars this represents a 25% increase over 1941 and better than 100% increase over 1929. Based upon these figures, growth has been about 3% a year. If this long-term rate of growth continues—and there is no reason to believe it will not—our gross national product could reach a total of 452 billion by 1960, in terms of 1953 dollars. This would provide the purchasing power for a standard of living from one-quarter to one-third higher than the peak level of 1953. By 1975, assuming present growth rates, gross national product could reach $700 billion — and consumer spending 450 billion—or almost double that of the present.

All Businesses Will Benefit in Our Expanding Economy

I don't believe any of us here today can question the fact that all the changes I have mentioned —plus several others which time restrictions do not permit me to outline—are now hard at work on our economy. These changes are powerful factors working in the directions of an ever increasing volume of business and prosperity for all of us. It is inevitable, for example, that the demand for all kinds of products and services will step up tremendously as more and more children are born and vast numbers of them gradually become older and assume adult status. Among the first to feel the effects, of course, are those companies producing such things as food, clothing, toys, and medicines. Needs for doctors and hospitals will be stepped up. Gradually a wider and wider variety of products will benefit—housing, automobiles, refrigerators, washing machines, furniture, recreational facilities, shaving supplies, watches, etc., until every line of business is embraced. Similar benefits will accrue to innumerable lines of business as the life span of millions of men and women is extended well beyond the age of 65.

Need for Huge Capital Investments

In addition to all the benefits to American industry which I have just outlined is the fact that the great changes now underway in our country are producing the need for huge investments — a need which is becoming more urgent as time goes on. Let me point out two or three examples:

(1) Our school facilities are completely inadequate to take care of the great increases which have already occurred in our population—increases which are still continuing. Today we have nearly 70% more children under five years of age than in 1940. It has been said that our school facilities — new classrooms, recreational facilities and the number of teachers—should be doubled within the next few years. This will call for the expenditure of vast sums of money all over the country. These are expenditures which cannot be delayed for long.

(2) We also have an urgent need for new and better highways. There are today over 55 million motor vehicles operating on the roads of this country—75% more than in 1940, and this number will increase for there still are 22 million families in this country who do not yet have a car, plus millions of other families who sooner or later will want a multiple number of cars. Our present road and highway system is not adequate to meet this congestion. Pressure to relieve this condition will grow. This will call for the expenditures of great sums of money over a long period of time.

(3) Our need for new home building is very strong. During the last several years, as we all know, we have built approximately one million new homes annually. As great as this figure is, it has been just about enough to take care of the growth in our number of families. Much of our existing housing requires rebuilding or remodeling for 67% of our dwellings are over 20 years old and 50% are over 30 years old. When this need is considered, in addition to the new homes which will be required for new family formations, our annual investment in housing should be at very high levels for many years.

In addition to the investment opportunities I have mentioned, there are others which are equally pressing. These include a great need for both an increase and a replacement of hospital facilities as well as the modernization of the slum-ridden areas of industrial cities throughout the country. In addition, electrical energy must be increased by 250% to meet the estimated demand of 1975.

Industry Must Also Modernize

Over and above all of these needs is the fact that much of industry must also be modernized. This has been brought out forcefully by Mr. Frederick Geier, President of the Cincinnati Milling Machine Company, the largest machine tool company in the world. In a recent interview Mr. Geier stated that there are now 1¼ million obsolete machine tools in this country which should be replaced with up-to-date machinery which would be one-third more productive. This activity alone would require an investment of $6 to $8.5 billion, but it would save industry $1.5 billion a year in direct costs alone. Obviously, this would help lower our unit costs and make it possible for us to expand our markets.

I would like to dwell on this subject for a moment longer, if I may, for I feel that it is one that is critically important to the future of America. While I am sure the point I want to make is well known to all of us, I feel it is well worth emphasizing just to make certain we do not forget it. It is this: The extraordinary increases which have occurred in our standard of living up to the present time are very largely the result of our amazing technological advancements in the past which have had the effect of increasing employment, lowering costs and providing higher real wages to the worker. Throughout our history, spending for improved capital equipment has always led to expansion rather than to contraction. As individual manufacturers and as a nation, we cannot afford to allow our industrial equipment to become obsolete. The pressing demand of the future will be to turn out increasing quantities of merchandise at a lower unit cost. We can do this only if we continually take full advantage of the technological skills which have made us such a great country.

At this point I want to bring out as forcefully as I can that

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*An address by Mr. Spang at the Second Annual Management Conference, sponsored by the School of Business and the Executive Program Club of the University of Chicago, Chicago, Ill., April 17, 1954.

Effects of Recent Monetary Policy

By WINFIELD W. RIEFLER*
Assistant to the Chairman
Board of Governors of the Federal Reserve System

Reserve Board's monetary expert reviews recent money market conditions, and points out, though economic stability cannot be achieved through monetary policy alone, it would be difficult, if not impossible, to maintain such stability in absence of appropriate monetary policy. Says Federal Reserve, to take proper action, must at all times have a positive view with respect to both the money market and the economy and must be prepared to promptly change that view in response to new developments.

The year 1953 marked the fortieth anniversary of the Federal Reserve System. As though to signalize the event, the money market and the economy took the occasion to present the System with a series of perplexing policy problems. Those within the System who had to deal with them will probably always regard the year as historic.

Winfield W. Riefler

Throughout the year System operations have been well publicized. Recently, the Annual Report of the Federal Reserve Board has become available with its official record of the policy decisions and actions of the Federal Reserve Board and the Federal Open Market Committee. Because of the nature of the problems presented, the policy record is more revealing than usual. It illustrates strikingly the fact that monetary authorities, operating in a free economy, are faced with two imperatives:

(1) They must at all times have a positive view with respect to the money market and the economy.

(2) They must be prepared to change that view promptly in response to developments within the money markets.

The Open Market policy record shows that when the full Open Market Committee met last year in early March it directed the executive committee to continue to operate "with a view to exercising restraint upon inflationary developments." This wording was unchanged from the directive under which the executive committee had been operating for some time past. In operational terms, it meant that the Open Market Committee would refrain from supplying, on its own initiative, all of the member bank reserves needed for growth after seasonal movements, and would rely on member banks taking the initiative to secure some of these reserves through the discount window at the Federal Reserve Banks. The discount rate that member banks would have to pay was 2%, a level that had been established in January.

This directive was adopted after a careful review of the economic situation which indicated that the economy was characterized by increasing buoyancy. Industrial production and gross national product were increasing, and unemployment was exceptionally low. Overtime was frequent and there were indications of growth in inventories—suggestion of more growth, in fact, than was being shown in official estimates. In the money markets, savings were large but demands for capital and credit were larger. Demands for mortgage credit, for consumer credit, and for state and municipal financing were particularly strong. These demands for credit, so far as they impinged on the commercial banks, were met partly by sales to the public of Government securities from bank portfolios, and partly by recourse to the discount window of the Federal Reserve Banks.

Under these circumstances, net member bank borrowing at the Federal Reserve Banks remained relatively high, between 3% and 4% of required reserves. In the aggregate, net borrowed reserves, i. e., total discounts and advances to member banks less excess member bank reserves, averaged $698 million in February, $632 million in March, and $649 million in April. The persistence of this volume of borrowing at a time of strong credit demands was reflected in rising interest rates. At the same time, the fact that the active money supply, after seasonal correction, was growing at about a 3% annual rate indicated that the situation, while strong with inflationary potential, was in reasonable balance. The same indication was given by the stability of commodity prices. The pressure on resources that was being registered in overtime and in growth of inventories was based almost wholly on business anticipations. Neither was accentuated by expectations of price advances or by the too ready availability of cheap and easy credit.

Although the March directive of the Federal Open Market Committee was couched in terms of restraint of inflation, the bulk of the operations which the executive committee subsequently found it advisable to authorize under it consisted of purchases, not sales, in the open market. In the event, they were directed not toward more restraint but rather toward preventing restraint from becoming excessive and turning into contraction.

These purchases started in the second week of May, and were conducted on an increasing scale thereafter. Their results were registered in a decline in the volume of net borrowed member bank reserves. These, as noted above, had averaged between six and seven hundred million dollars in February, March and April. In May, they averaged only $364 million, while in June, partly reflecting very heavy temporary Treasury financing at the Federal Reserve Banks, net borrowed reserves disappeared and were replaced by net free excess reserves averaging $355 million. This was a very rapid reversal of the direction of open market operations. It happened in the course of only a few weeks and illustrates the point noted earlier, that those responsible for monetary policy must always be prepared to reverse their view with respect to the money market, sometimes on very short notice.

There are some who have interpreted this reversal as an example of prevision on the part of the monetary authorities of the recession in economic activity that has subsequently developed. Since the decisions of the Federal Open Market Committee and of its executive committee are composite decisions, this is probably true so far as some of the participants are concerned. The fact, however, that the executive committee began to buy bills in considerable volume at a time when one of the directives under which it was operating still called for restraint on inflationary developments indicates that other economic and monetary considerations had also become important.

The fact is that early in May 1953 there were few data on production, employment, consumption, or the demand for capital and credit to indicate either that the boom was over or that recessionary tendencies were paramount. The factual data, other than that which registered the climate of the money markets, still pointed the other way. By early May, however, it was becoming evident that the markets for capital and credit were becoming increasingly dominated by a hectic psychology rather than a rational evaluation of risks and prospects. This was indicated by the rusk of borrowers to cover future needs, making the market predominantly a lender's market, by the rise of interest rates at a more rapid pace than would ordinarily be associated with a boom on the current dimensions, and by the general atmosphere of heightened anxiety and uncertainty that pervaded financial markets generally. These are characteristic symptoms that frequently appeared toward the peak of booms before the establishment of the Federal Reserve System. It was the desire to prevent such developments from generating a financial crisis that led to the creation of the Federal Reserve System. In operating to counteract the factors which gave rise to these symptoms in May and June 1953, the executive committee, while appearing to forecast an end to the boom and an immediate business decline, was responding particularly to its general mandate to facilitate the efficient functioning of financial markets.

The developments that led up to the emergency of this potential crisis are fairly well known. They were numerous, and different analysts, in retrospect, have placed varying degrees of emphasis on the several strands. There was the existence of a boom with its accompanying demands for financial accommodation that was putting real pressure on available resources, and on savings. There was the general incentive to borrow that was generated by the excess profits tax. There seems to have been increased response in the money markets, as time went on, to the policies of restraint initiated earlier by the Federal Reserve System. There was the decision of the Treasury to seek to raise funds in the long-term money market, and the response of the market to that decision, first, in the form of exuberant oversubscription, and, subsequently, in the form of anxiety over the proportion of the offering held by "free riders." There were the disquieting interpretations and misinterpretations of statements by responsible authorities. There was the impact of the increase in the prime rate to commercial borrowers. There was the fact that higher interest rates became the subject of political debate. There was the sudden change in the Treasury outlook, indicating that the Federal Government would have to borrow in much larger amounts than had been expected.

These comprise the developments most frequently mentioned. Two others might be added. First, the rapid rise in importance in the capital markets of the sales finance companies as bidders for very substantial amounts of long-term funds, and, second, the rapid and almost complete disruption of the secondary market for GI and FHA mortgages which followed the attempt to freeze borrowing rates in these important sectors of the capital market.

The mere recital of these several developments, each of which assumed major importance at some time during the period, indicates the nature of the crisis that developed so suddenly. It reflected the mutual interaction of many concurrent factors which continued to dominate the money and capital markets until the first of June. Thereafter, the tension relaxed progressively as more rational evaluations began to prevail and as the reserve funds that had been and continued to be injected into the open money markets worked their way through the financial system.

Open Market Policy Since June 1953

Open market operations since June 1953 have been directed almost continuously toward relaxation in the financial markets. The official policy record indicates that the full Open Market Committee, in its meeting on June 11, directed the executive committee to operate with a view "to avoiding deflationary tendencies without encouraging a renewal of inflationary developments." At the meeting three months later, on Sept. 24, the latter part of this directive was eliminated and the executive committee was instructed to operate with a view "to avoiding deflationary tendencies." At the meeting on Dec. 15, the executive committee was directed to operate with a view "to promoting growth and stability in the economy by actively maintaining a condition of ease in the money market." Each of these directives was adopted after a searching review of the economic situation. The changes in wording, consequently, reflect the composite judgment of the committee as of the date of each meeting.

Under these directives, open market operations have, in general, been progressively directed, first, toward creating, and later, toward maintaining a condition of ease in the money market. Although excess free reserves, i.e., the amount by which aggregate excess reserves are greater than the aggregate of member bank borrowing, have fluctuated sometimes widely from month to month under the impact of the various forces that play on the money market, they have shown a tendency to grow from relatively small amounts in midsummer 1953, after the June crisis was passed, to between $400 million and $500 million in recent weeks.

In addition to the reserves supplied through open market operations, the Federal Reserve Board reduced reserve requirements at the end of June 1953 to provide a substantial volume of funds at a time when the money market threatened to tighten rapidly. The Treasury was paying off a substantial volume of temporary borrowing at the Reserve Banks and also re-establishing normal working balances. Almost simultaneously, the Treasury planned to enter the market for a large volume of new cash.

Discount rates remained at 2% throughout the last half of 1953, but were reduced to 1¾% at all of the Federal Reserve Banks in January 1954, and again to 1½% at some of the Federal Reserve Banks last week. Both of these changes followed a lowering of rates in the money markets and had the effect of restoring the discount rate to more customary relationships to market rates.

In evaluating these operations since last June, it is important to keep in mind that the gradual average increase in the volume of excess free reserves over the period have not always represented positive decisions by the Open Market Committee to place additional reserves in the market through purchases of securities. Frequently they have represented reserves which, in a technical sense, appeared in the market for seasonal or other reasons. In these cases, open market policy was expressed through decisions not to absorb such reserves. If one takes the 9-month period from the June meeting of the Federal Open Market Committee to the present as a whole, the operations actually effected by the Open Market Committee would not have resulted in the present volume of free reserves had the demand for currency and demand deposits shown its customary year-to-year growth. Instead, member banks would be fairly heavily in debt to the Federal Reserve System. It is possible to say, consequently, that the present ease in the money and capital markets reflects fundamentally the recession in the economy with its smaller demands for credit and with its leveling off in the demand for currency and deposits. If one chooses to analyze the recession from this viewpoint, the operations of the Open Market Committee would be described as having had the effect of permitting basic forces to find technical expression in the availability of free reserves in the market place.

Repercussions on Money Rates

Money rates have declined rapidly since the peak in June, 1953. For example, in the short space of 9 months, the yield on long-term U. S. Government securities has declined by 19%, while the yield on triple A corporate bonds has declined by 16%. In the short-term open markets, average yields on short-term Government securities have declined by 59%, while rates on commercial paper have declined by 27%. On the other hand, rates charged customers by banks showed little change until very recently. That the decline in yields on long-term bonds, both Government and corporate, has been exceptionally large and rapid has been widely noted and has given rise to some concern in financial circles. In part, of course, it reflects a reaction from the rapid rise in yields that occurred in the second quarter of 1953. The impression is general, however, that the current drop in long-term interest rates is unprecedented, even after account has been taken of this factor.

In an endeavor to distinguish between these two partly offsetting movements, and thus to throw some light on the degree to which the recent fall in interest rates may be considered exceptional, it is relevant to examine the behavior of interest rates for each of the recessions that has taken place since World War I, i. e., 1920-21, 1923-24, 1926-27, 1929-30, 1937-38, 1948-49, and 1953-54. As a bench mark for this comparison, average interest rates have been computed for the first 6 months of 1953, i. e., the highest 6 months preceding the reversal, and compared with the most recent figures on interest rates available, i. e., March 1954, 9 months later. To secure comparable figures for earlier periods, averages of interest rates may be computed covering the highest 6 months in each boom, and compared with interest rates prevailing 9 months later.

On this basis of comparison, the recent behavior of interest rates appears somewhat less unprecedented. The recent drop in yields on short-term U. S. Treasury securities and on open market commercial paper is close to the median of the seven periods of recession. On the other hand, the fall in yields in the long-term market is still exceptional. On this basis of comparison, the yield on long-term U. S. Treasury bonds declined by 15% as compared with a range of 5% to 11% on a comparable basis in the six earlier periods, while the drop in yields on triple A corporate bonds works out at 10% compared with a range of 2% to 8% in the six earlier periods.

The bench mark for this comparison is the first 6 months of 1953, which still includes the

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*An address by Dr. Riefler before the Third Annual Business Economists Conference, the University of Chicago, Chicago, Ill., April 23, 1954.

Raising Our Economic Sights

By L. L. COLBERT*
President, Chrysler Corporation

Expressing confidence in continued business expansion and potentialities of our economic strength, prominent automobile executive says "only real limitation on our future is the size and scope of our ideas." Points out it will take at least 15 years and $105 billion to bring our highway system up to date, and calls attention to California's example in drawing up a comprehensive state wide highway program.

A few weeks ago, just as I was beginning to look forward to this occasion and starting to think about what I might say to you, I read an article in the "Saturday Evening Post" on your spectacular freeway program in the Los Angeles metropolitan area. Along with a good many other people, I have been deeply interested in this program for years. But in reading this article I learned several new and interesting facts. I discovered, for instance, that the intersection which you call the "Stack" handles over a quarter of a million cars every day by means of 32 lanes on which traffic flows simultaneously in eight directions. I learned that you have already completed 53 miles of the basic 165-mile freeway, and that you plan to keep right on building more miles of freeway until you have a system for the Los Angeles metropolitan area that will be 612 miles long.

L. L. Colbert

What interests me most of all about your freeway program is what it indicates about the characteristic Los Angeles frame of mind. It indicates that people in this part of the world are alive to the future and its needs. I suppose few cities have as many organizations devoted to thinking about next year and the next 10 years, and the rest of the century.

I believe this awareness of the onrushing future and its needs is becoming more and more characteristic, not only of the people of Los Angeles and California and other states of the Far West, but of people in all parts of the country. Wherever you go these days you see signs of growth and surging activity. As you fly over—or drive out from—any of our cities you see webs of streets and houses spreading out into the surrounding countryside. You see new shopping centers, new factories, new schools, hospitals and playgrounds. Fundamentally, thos construction is a response to the needs of the millions of people we are adding each year to the nation's population—and to the nation's strength.

Our Population Growth

A short time ago I ran across some striking facts about the growth of our population. For instance, since 1940 our population has shown a net growth of nearly 28 million—as compared, for instance, with a net growth of only 18 million in Russia, a much bigger country. It has been estimated that in the 35 years between 1940 and 1975 the population of the United States will have shown a net increase of 70 million people. This increase alone amounts to more people than there were in the entire United States in the early Nineties when the first horseless carriages were beginning to appear on American streets.

The increase in the nation's population has been more than matched by increases in the production of goods and services and in rising standards of living. The rapid march of industrial engineering, the will and energy of the American people, and the confidence and drive of America's businessmen — backed up by the American investor—have created an incredibly big, complex and thrilling combination of resources, techniques and talents. As one looks out on the panorama of American civilization today, the only appropriate comment seems to be that four-word sentence that Samuel Morse tapped out 110 years ago on his first crude telegraph—"What hath God wrought!"

Now it occurs to me as I hear people talk about the problems of the present and the prospects for the future that we are only beginning to learn how to think in terms that are big enough and bold enough to match the power and immense potentiality of America. Our age is different—different fundamentally from other ages in the history of man, and we are being shaken up—challenged—to think and act as we must to meet the unique conditions of our times. I would like to mention a few of the ways in which our age seems to me to be new and different.

In the first place, as I have indicated, our plans and our achievements are all conceived and carried out on a grander scale than we would rave thought possible only a few years ago. To some people the fact that we have grown so presents itself as a sign of danger. They seem to think that the more we have in resources and productive capacity and income and living standards, the more risk we run of getting hurt. I don't agree. To me, the fact that our economy is built on a bigger base than ever before is reason for new confidence in the future.

Let's take a look, for instance, at the amounts being spent every year on the essentials of living in present-day America. First of all, about $75 billion is spent each year for food; and roughly another $75 billion in services, which includes such things as telephone bills, rent, and life insurance premiums. And then there is the $45 billion or so we spend for defense. We are not very likely to reduce any of these basic needs very far. And in addition there is the $30 billion we have been spending on cars, household equipment and other durables, the $27 billion that businessmen have been investing in plant and equipment, and the more than $34 billion we have been spending to carry on minimum Federal and local government services — to educate our children, for instance, and to build and maintain roads and other public works. Just to buy the basic essentials of modern living and to provide an adequate national defense requires an expenditure of well over $200 billion a year, and this is more than twice as much as the total national income in the very prosperous year 1929.

These facts point up what we all know. Our basic needs are very great. We have learned to live well. And what once may have been looked upon as luxuries of the well-to-do are now necessities for the vast majority.

The rapid growth of our population and the widening range of goods and services we can provide has been more than an increase in sheer size. With them has come a new capacity for swift adaptation to new conditions — a new ability to create the means to a more varied and more rewarding way of life. This is another way of saying that we live in the age of science and technology—an age with its own built-in acceleration factor.

We have been living for more than a decade now in the age of the atom and nearly every week we hear of new applications of atomic physics in medicine, agriculture, metallurgy, industry, and power development. But it is not only in the field of atomic physics that we are moving ahead. Science and industry are bringing about changes in many other ways which are new and fascinating.

Thrilling Possibilities of Science and Engineering

The thrilling possibilities of science and engineering are most real when we see them at work in our own business. I had a personal experience of this kind recently that I would like to share with you. Several weeks ago, on a cold, rainy morning, I drove out to Chrysler Corporation's new Proving Ground west of Detroit. I was there along with over a hundred other people to witness a great event in the history of automotive engineering. We waited at one end of the oval speed track for the appearance of the first American passenger car of normal design and dimensions to be powered by a gas-turbine engine.

As I am sure most of you know, a gas-turbine engine operates on roughly the same principle as a jet airplane engine. It swallows and compresses enormous quantities of air, superheats it, and then uses the thrust of the greatly expanded air to provide motive power. There is one great difference, however, between a jet airplane engine and the new gas-turbine engine. The airplane jet engine drives a plane forward by means of the direct thrust of the expanded hot air against the atmosphere at the rear of the plane. The gas-turbine automobile engine, however, powers a car by means of the thrust of superheated air against the vanes of a turbine, which is made to turn at many thousands of revolutions per minute. The power in this "fan" is then transmitted to the wheels of an automobile through a set of reduction gears.

As this experimental car came around the curve of the big track, all of us felt we were witnessing the first step into a new age in highway transportation. There it came—a Plymouth in outward appearance, but with a new and unfamiliar power plant under its hood. As it came closer, what impressed us most was the smoothness and the quietness of its performance. Besides the familiar sound of tires on wet concrete all we heard was the soft flow of air which the engine was inhaling. As the car came to a stop before us, I stepped behind it and passed my hand through the exhaust stream. This surprised me most of all. I had been told that the exhaust would be harmless. But to my great surprise it was actually cooler than the exhaust of the present-day piston engine.

When I rode in the car, I was struck by the effortless acceleration provided by this new engine, both from a standing start and throughout the cruising-speed range. Here, I thought, was the automobile engine of the future. Here was a way to provide drivers with a new kind of power—smooth, quiet and economical.

It may be a long, long time before you and I will be able to buy a car with a gas-turbine engine. It may be a long, long time before we can drive up to a service station and tell the attendant to fill 'er up with whatever fuel may be found by the petroleum industry to give the most power per dollar. Between now and then there is an enormous job to do in perfecting this new engine—and in solving the many metallurgical and manufacturing processes required.

We in the United States build on a big scale these days—and the revolutionary changes that take place day after day in our ways of working and living would have alarmed our forefathers. But there is another difference between our age and other ages in the history of our country. Whether we like it or not we are today the dynamic center of the free world. What we do, what we

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*An address by Mr. Colbert at a Town Hall meeting in observance of "Invest in America Week," Los Angeles, Cal., April 27, 1954.

The 1929-33 Depression Not Due to Gold Standard

By JAMES WASHINGTON BELL*

Professor of Money and Banking, Northwestern University
President, Economists' National Committee on Monetary Policy

Dr. Bell, contending that the gold standard, *per se* is not a cause of business cycle fluctuations, combats belief that the gold standard was responsible for the Depression of 1929-33. Says there was no need to abandon the gold standard in 1933, and maintains a return to redeemable currency by the United States would be a salutary move, and it is feasible, so that "we need not wait for others to lead the way." Asserts without the discipline of the gold standard, faulty economic policies were adopted after 1933 that unnecessarily prolonged the depression of that period.

Summary of Statement

It is the purpose of this statement to present evidence that the gold standard system is not *per se* a cause of business cycle fluctuations but is merely an institution within which the monetary and credit system operates. Sophisticated critics realize this but claim that present-day structural changes and new objectives make the operation of the gold standard unworkable.

J. W. Bell

An erroneous belief still persists that the gold standard was responsible for the depression of 1929-1933 and that we were forced to abandon the gold standard in 1933. It seems fairly clear that this belief is a delusion—a delusion which can be traced to popular misunderstanding of the facts, aided and abetted by public misrepresentations. The collapse of the banking or credit system and coincidental economic crises leading to liquidation and depression were associated in the minds of the people as "cause-and-effect" relationships. The suspension of gold payments dramatized the breakdown of the monetary system in many foreign countries from 1929 to 1931 and people concluded that the gold standard was responsible for the collapse and the depression that followed. Misleading explanations of the short but violent fluctuations in gold movements in 1931 and 1932 aggravated bank failures, and uncertainties concerning the future of gold and of the dollar provoked another run on gold early in 1933. Subsequent propaganda statements rationalizing the abandonment of the gold standard and the devaluation of the dollar were, in the atmosphere of contemporary disturbance and uncertainties, accepted as historical facts.

The operation of the gold standard was not the cause of the crisis of 1929 and the ensuing depression in the United States. The record shows that although bank credit collapsed the gold standard was never in jeopardy. The record also shows that, although credit maladjustments and the weakness of our banking structure were serious, the nation-wide closing of banks could have been avoided. An analysis of the facts indicates strongly that the credit maladjustments of the '20s would probably have occurred even if we had been "off gold" at the time and, indeed, they might have been worse without the limitation and restraints imposed by the operation of the gold standard system.

The real causes of the 1929-1933 depression are to be found in the economic maladjustments (domestic and international) which developed during the "New Era" boom of the twenties. Whether or not these maladjustments could have been avoided involves many controversial issues but any proposal to abandon the gold standard in the United States at that time was not one of these issues.

Two additional points may be added as a sequel to the above—which will not, however, be treated except incidentally, in this statement.

The abandonment of the gold standard in 1933 permitted, yes, even invited, the adoption of other monetary objectives than that of maintaining the value of money stable in terms of gold. These other objectives, i.e., price stability at a high level of employment, might well have been accomplished under the gold standard. Without the discipline of the gold standard, faulty economic policies were adopted which unnecessarily prolonged the depression (which lasted until World War II).

The return to the gold standard by the United States would be a salutary move; it is feasible now; and we need not wait for others to lead the way.

The Gold Standard System Is Not A Cause of Business Cycles

Sophisticated critics of the gold standard realize that a set of rules or practices is not *per se* a cause of business fluctuations and most of them appreciate that human institutions do not operate mechanically like an automaton, but they maintain that the essential features of the full gold standard system are no longer workable. They take exception, particularly (a) to the free convertibility of non-monetary gold into monetary gold at a fixed price at the government mint and *vice versa* (by citizens of the United States as well as by foreigners, other than governments and central banks); and (b) to the redeemability of all lawful money, coin or paper, into gold at face value.

These critics maintain that the so-called "automatic" operation of the gold standard system has ceased to be realistic since 1914 (when the Federal Reserve System was established); that economic conditions since then have been less favorable to the gold standard; that gold reserve ratios can no longer serve as the guide to credit policy; that the gold standard signals are likely to come at the wrong time and even indicate the wrong direction for credit policy; that the gold standard system does not apply an automatic brake on the boom and breaks down in a crisis when most needed; that when domestic considerations are paramount monetary authorities are forced to "violate the rules of the game" by "neutralizing" or "sterilizing" gold reserves, thereby nullifying credit expansion and its effects on prices, interest rates, income and employment, etc., and thus making the gold standard an obstacle rather than an aid to stability. They point out that the Federal Reserve System was created in part to compensate for the inflexibility of the money supply under gold. Finally, to quote Allan Sproul of the Federal Reserve Bank of New York: "The integrity of our money does not depend on gold convertibility. It depends on the great production powers of the American economy and the competence with which we manage our fiscal and monetary affairs."

These criticisms come quite uniformly from those who favor unrestricted monetary powers in the hands of administrative authorities rather than rules which permit free choice in the market. Also, these criticisms, though this may seem inconsistent, are most often made by "internationalists."

It is, indeed, true that our banking system, under the Federal Reserve System, provides an extremely efficient mechanism for credit expansion and contraction. (In this respect, however, it is a counterpart of the British system which, with its Bank of England, operated very successfully for a century under the gold standard system.) By implication a more powerful model calls for more careful and intelligent management and direction, but it does not follow that the basic principles of the gold standard system should be discarded. Ours is still a credit system dependent upon public confidence.

There is, in any credit system, a limit to debt-money expansion, a limit which is related to the ratio of cash reserves (which represent the form of asset into which the debt is redeemable) and to the quality (soundness and liquidity) of the other bank assets convertible into reserves in time to meet the creditors' demands. In other words, the total amount of all currency or gold in the country is only a small fraction of the total deposits of all the bankers. When holders of debt-money begin to doubt that their claims are "as good as gold" they may call for their redemption or payment. When confidence becomes shaken in the debtor's willingness or ability to pay, the liquidity and soundness of the debt is tested. If the debtor-institution lacks cash reserves or means to get cash and "suspends payment," it is bankrupt. If the pressure to liquidate bank deposit claims becomes general, the whole system may become involved and eventually break down.

The reason for this is that even perfectly sound assets cannot be converted into cash "under the hammer" except at panic prices far below their real values and, when a few banks begin to unload, the pressure on the market spreads the distress. Closing some exits in a crowded building puts greater pressure on those still open. Mismanagement or untoward pressures brought on by exigencies such as wars may cause a break down of any fractional reserve or credit system. If public confidence involves only bank credit it is quite possible for the credit system to collapse while money, e.g., the dollar, is still firmly established. The dollar may rest on full faith and confidence in government credit, as is the domestic dollar today, or on the full gold standard, as it was prior to 1933. The question is, which is sounder?

This background should help us to see events in the light of principles and to explain why the gold standard, after a long and satisfactory record, became discredited in recent years in those countries that were unable to maintain their solvency and were forced off the gold standard, as well as in the United States when it was thought that the gold standard would be a handicap in carrying out public policies designed to promote economic recovery and full employment.

The Real Causes of the 1929-1933 Depression

An erroneous belief still persists that the gold standard was responsible for the depression of 1929-1933, and that the collapse of the banking system forced us "off gold" in 1933. The implication drawn from this belief is that it would be unwise to return to the gold standard because the same or similar forces would bring on a depression and throw us off gold again, leaving us worse off than before.

The delusion that it was the gold standard that was to blame can be pretty definitely traced (a) to the widespread break-down of the gold standard in foreign countries during 1929 to 1931, and (b) to the effect of contemporary partisan statements which were accepted almost as historical facts and the subsequent propaganda rationalizing the abandonment of the gold standard in 1933 and the final devaluation of the dollar in the Gold Reserve Act of 1934.

The real causes of the 1929-1932 depression are to be found in the economic maladjustments of the 1920's, both here and abroad. This was not fully understood at the time when it was thought that we were safely established on a "New Era" plateau of prosperity. When the collapse occurred it came as a great shock and surprise and one can hardly wonder that the layman was ready to accept any "authoritative" statement that carried plausibility. Professor J. A. Schumpeter asserted that "One of the most common indictments leveled at economists was their alleged inability to offer a satisfactory explanation of the world crisis of 1929-1932." But inability to forecast is an indictment which might apply equally well to a physician who assures his patient that he is in good health a moment before his patient walks out of the office and drops dead or is run over by a truck and killed.

In the light of historical perspective, it is now fairly clear that an understanding of the business cycle history of the twenties (and on into the thirties) lies in the causes and nature of the unusually prolonged period of high investment in producers' and consumers' durable goods. In times past excessive investments and consumption had ultimately been checked by credit limitations, but during the '20s a new factor, the Federal Reserve System, provided a steady supply of bank credit. Full employment, a high level of income and high propensity to consume, borne of optimism, sustained the demand for goods and a rising tide of speculative fever accounted for enormous flotations of new security issues and a boiling stock market.

The "New Era" optimism was reflected particularly in the promotion of new enterprises, real estate booms, and in the development of a variety of unsound financial practices in both short- and long-term markets. Inflation had taken place more in security values than in commodities and, although a decline in business itself had already appeared in the summer, it was the dramatic break in the stock market in the fall of 1929 which brought on the painful liquidating process and *sauve qui peu* struggle which our banking and business structure was not designed to meet.

The chief underlying factors responsible for the high level of investments and the areas in which we find evidences of economic maladjustments in the 1920's may be enumerated as follows:

(1) **Real Estate**, both urban and rural. The peak of a long-term building cycle was reached around 1926; and, in the agrarian sector, mortgages made the plight of the farmer serious.

(2) **Market Saturation of Durable Goods.** Rapid technological change, with increased labor productivity, quickly produced a market saturation of some commodities, especially of durable consumer goods. The full impact of the automobile made itself felt during this decade, as did the expansion of relatively new industries such as electric power and equipment, radio, movies, etc., together with the pent-up demands for plant and machinery after World War I. Activity in the railroad and public utilities industries was also an influence in bringing about full employment and a high level of income.

(3) **Speculation on the Stock Market.** Security values had been pushed to unwarranted figures — figures representing investments made which were not justified in terms of long-run profit possibilities. The September, 1929, average weekly index of stock prices stood at 225 on the 1926 base of 100.

(4) **A Vulnerable Debt Status** in all the above fields, namely: urban and farm real estate, consumer credit and security speculation, resulted from both reckless borrowing and audacious lending.

(5) The weakness of the United States banking system produced three bank-failures epidemics and had a demoralizing effect on public confidence.

(6) An elastic **credit supply**, and, except for brief intervals in 1924 and 1927,[1] an easy Federal Reserve money policy produced adequate bank credit to finance both business needs and the speculative boom in securities and real estate. There was no shortage of capital, and business, becoming increasingly independent of banks, was not handicapped by lack of bank credit, despite the alleged diversion of commercial credit to the speculative security market. Actually, security loans were a source of inflationary purchasing media that stimulated business via speculators' purchases of automobiles, new homes, furs, and the like.

(7) Stable prices and high business profits produced delusions that "business was fundamentally sound." The efforts of the Federal Reserve authorities were directed to the stabilization of the price level (i.e., commodity prices at wholesale). With the "discovery" in 1923 of the instrumentality of open-market operations as a method of credit control (i.e., voluntary buying or selling of bills or securities to ease or tighten credit through adding to or subtracting from reserves of member banks) the Federal Reserve banks were no longer dependent upon discount rates, which were ineffective when member banks were in no need of borrowing. So great was the faith of the people that stable prices spelled stable business and that stable prices could be controlled by regulating the supply of money that bills were submitted in Congress for the purpose; for example, the Steagall bill in 1923 proposing a stabilized compensatory dollar and the Strong bill in 1927 providing for a Federal Reserve mandate to keep the price level stable.

In the latter twenties my friends on LaSalle Street chided me about continuing to give my courses in Business Cycles, with such comments as: "Don't you know that we have learned to lick business cycles?" Businessmen and bankers too were very complacent about economic conditions right down to September 19, 1929. I have heard it said that the Harvard Business Service had to go out of business because they didn't know how to allow for the effect of Federal Reserve policy on their barometric money curve (C) in making forecasts after 1927. The objective of commodity price stabilization proved to be a delusion. We were amazingly successful in attaining this goal, but in stabilizing commodity prices we permitted other sectors of the economy, i.e., real

*A statement by Prof. Bell at the Hearings on the Gold Resumption Act of 1954, conducted by the Subcommittee of the Senate Committee on Banking and Currency, March 31-April 1, 1954.

1 Total Federal Reserve Bank credit was permitted to fall from $1\frac{1}{2}$ billion to less than $1 billion early in 1924 and from nearly $2 billion to slightly over $1 billion early in 1927 while Federal Reserve rates were maintained, hence this represented a relatively tighter credit policy.

estate, consumer credit and the speculative security markets, to become dangerously inflated.

(8) Our domestic situation was complicated by our **international economic relations.** We made vast loans abroad, public and private, short-term and long-term. Some $8-9 billion of foreign loans had sustained trade and payment balances, i.e., we sold more than we bought and made loans to foreigners so that they could pay us back. Proceeds from these loans were not always wisely used, e.g., German public expenditures. The British had over-valued the pound when they followed the recommendation of the Cumliffe Commission in 1919 to return to prewar parity ($4.86 in our exchange). The United States, being a heavy creditor country, attracted gold, but gold imports were not effective in expanding bank credit and raising prices, interest, income, etc., because the Federal Reserve "neutralized" or "sterilized" the gold flow by offsetting sales of securities in the open market, thus taking as much money out of the market as was put into it. This so-called "gold paradox" was perhaps the first example of a systematic, planned central bank policy to supplement discount with open market operations so as to stabilize credit in order to hold down the price level —and incidentally making it more difficult for England to get back on the gold standard in 1925. (The mechanics of this operation was first described in the April, 1923, number of the "Federal Reserve Bulletin.")

The unwillingness of central banks to play according to the rules of the game was criticized by Keynes and his followers as "a weakness of the gold standard." The Gold Delegation of the Financial Committee of the League of Nations, reporting in June, 1932, also deplored the measures taken "in recent years" by central banks to offset gold movements as being "fundamentally in contradiction with the gold standard system," and they called attention to a logical conflict between the gold standard and domestic monetary stability: the former imposes external control; the latter must, under some circumstances, insist upon isolated, internal control. This, J. H. Williams, in 1932, called "the fundamental conflict between the principles of central banking and the principles of the gold standard. Central banks not unreasonably feel it necessary to hold surplus reserve for protection against internal and external drains, but the gold standard assumes that banking systems are loaned up, that gold reserves are being fully utilized."

This so-called "conflict" is not one between central banks and the gold standard but is based rather upon a difference in economic objectives, namely, whether to emphasize domestic stability or international stability. As long as we trade with foreigners our economy will be affected by events abroad and we must face the prospect of making compromising adjustments. Foreigners likewise must make choices. Central bank policy complicates the picture but the long-run problems are not made easier by going off the gold standard.

England, a heavy debtor country after World War I, having decided to go back to the gold standard at a prewar parity, found it very difficult to make the necessary economic adjustments to attain that end. International stability could be obtained only at the cost of much domestic instability, and Keynes *et al* wanted domestic stability, with emphasis on domestic factors, e.g., prices and employment rather than the prerequisites of international balance. The gold standard obviously had to break down but England abandoned it reluctantly and only after a valiant struggle when she discovered that she couldn't have both stabilities. A very natural assumption was made that the world's monetary gold stocks were inadequate, and indeed, it became a popularly accepted view that a shortage of gold exercised a general deflationary pressure on credit and prices which eventually brought on the 1929 collapse.

However, the Gold Delegation (referred to above) found that the trouble lay not in any overall shortage of monetary reserves, but in their maldistribution, and that maldistribution of gold, in turn, proceeded from a fundamental disequilibrium in underlying trade and capital movements —England, following an anti-deflationary policy on a high price (and exchange) level basis, lost gold because it had a higher value elsewhere; e.g., in the United States and France.

What part did the gold standard play in the Great U. S. Boom that preceded the Great Depression? At least it provided a standard of value by which a few saner persons could judge the extent of the distortions that developed. If their wiser actions did not prevent the "bust" they surely tempered it. It is not clear that a different Federal Reserve monetary policy, 1927-1929 or earlier, would have prevented the depression although it might have helped to make it less severe. There were those who believed that credit expansion, both short-term and long, had reached the limits of prudence in 1927 and got out of the market. Though some got back in again this influence must have mitigated extreme effects. Bad as the situation was, the limits of credit expansion under the gold standard were not even approached (Federal Reserve ratio averaged 63.3% for 1928) and the situation could have been worse. Had we not had an ample supply of gold and a favorable balance of payments, pressure on our banking reserves even might have operated to tighten credit and might have involved a breakdown of the gold standard. However, during the '20s hardly a whisper was heard in the United States against the gold standard and how it operated. But the ground was being prepared abroad for a change of attitude as we shall presently see.

Why Did the United States Abandon the Gold Standard in 1933?

Foreign countries made valiant efforts to operate under the gold standard, but world trade and financial relations led to a maldistribution of monetary gold which made it difficult for England and other countries to return to the gold standard and impossible to maintain it. In the United States, however, the operation of the gold standard was not the cause of the crisis of 1929 and the ensuing depression. Gold Standard considerations undoubtedly affected credit policy, e.g., the sharp rise in Federal Reserve discount rates to stave off gold outflow in the fall of 1931, mid-1932, and in early 1933, but our position as the world's largest holder of monetary gold was never seriously threatened. When we eased off the gold standard it was not because we were forced off. It was a deliberate, political decision and an unnecessary one so far as economic considerations were concerned. A strong case can be made that we would be living in a much happier world today had we made it our business to stay on the gold standard in 1933, rather than abandoning it in order to make way for a "managed" inflation. This story must be told in some detail.

The world-wide liquidity crisis started when some debtor countries with adverse trade balances were unable to export enough to meet service charges on their external debt. The situation first became acute in raw material countries, e.g., Australia and Argen-

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We Cannot Restore Dollar-Gold Convertibility

By RENE LEON*
Princeton, N. J.

Mr. Leon contends nation's present gold reserve is far insufficient for immediate return to the full gold standard, and if gold were made available on demand and a rush to obtain gold should develop, it would cause the price structure to collapse. Holds gold is not indispensable for confidence in the currency.

The restoration of gold convertibility for the dollar is a practical impossibility.

We have approximately $22 billion in gold, $30 billion in currency outstanding, $130 billion in bank deposits (excluding inter-bank deposits), in part guaranteed by the Government. Thus, unless we decide to differentiate between one man's $1,000 bank deposit and another man's $1,000 currency note — a hair-splitting distinction with no practical difference—the ratio of gold reserves is approximately 14%. This leaves out of consideration all Federal obligations which, because they constitute a first mortgage on the total assets of the nation, including bank deposits, are, for all intents and purposes, equivalent to dollar bills with coupons attached.

Rene Leon

Now our prices are expressed in dollars; our price level is in good part affected by the abundance or scarcity of dollars. Thus if gold were made available on demand, and if, for any reason, a rush for gold should develop and an attempt were made to convert dollars and their equivalents into gold, our price structure would collapse and Government could not stem the tide until irreparable damage had been inflicted on the nation. Government would have to suspend gold payments once again and be obliged to resort to draconian measures to support the market for Federal obligations which constitute so large a portion of the assets of our banks.

New Realities Today

Those who clamor for immediate gold redeemability for our currency are thinking in terms of the past, not in the realities of today. Nor do they make sense when they contend that gold redeemability *per se* is indispensable to confidence in a currency; for soundness in money is not the product of a metal, however precious, but the fruit of sound fiscal and credit management. To believe otherwise is to indulge in nostalgia for a past that is dead or to confess adoration for the Golden Calf.

Like that of platinum or of precious stones the value of gold is extrinsic; none has intrinsic value; all are non-essentials. The world's stocks of gold are hopelessly inadequate when measured in terms of money and its equivalents. When measured in terms of the volume of trade, national or international, their inadequacy is greater still. For the growth and development of the systems of communications, of transport and of credit during the 20th Century have been such as to multiply many times over the volume of trade, rendering obsolete a gold standard system adapted to conditions which no longer exist. Contrary to popular belief the life of the International Gold Standard was very short indeed, 1873 to 1914 to be exact. It was unable to withstand the strain of its first test when World War I was declared, and all attempts to restore it under one guise or another have proved unsuccessful. The latest of these was the creation of the International Monetary Fund, an exchange-pegging device and, as such, a serious bar to progress.

Free Gold Markets in the Future

The past was one of weights and finenesses, of cash transactions, of restricted communications, of low standards of life. The present sees the translation of credit into increasing productivity and rising living standards. The demand of the future will be for freer markets, for free rates of exchange which, by bringing international accounts into balance, will spur progress. In the future economic scheme gold belongs to the free market. Those who look upon the yellow metal as a store of value, even as they do diamonds and emeralds, can then go to the open market and there compete for its possession without disturbance to our price structure. Their currency notes will then become at all times fully redeemable in gold . . . *at the market price* and with no financial responsibility to the rest of the community.

As for the insatiable demands of the gold producing industry for constantly higher guaranteed prices for their product, they merit not the slightest consideration.

*A statement presented by Mr. Leon to the Senate Banking and Currency Committee with reference to the Bridges Bill to restore gold convertibility.

Rutland Co. Formed

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif. — The Rutland Company has been formed with offices at 650 South Grand Avenue to engage in a securities business. Officers are Henry Ballard, Chairman of the Board, Harold E. Higginson, President; Roscoe C. Williams, Jr., Executive Vice-President and Secretary, Charles S. Hobard and Henry W. Ballard, Vice-President. Mr. Williams was formerly with Edgerton, Lofgren & Co.

Fostering Instalment Credit To Stimulate the Economy

By THOMAS C. BOUSHALL*
President, the Bank of Virginia, Richmond, Va.

Virginia banker reviews history and progress of instalment credit financing by banks, and points out its sound record, even in depression years. Lays down premises in support of instalment credit, and concludes challenge to banking today is to seize the initiative and offer credit that will stimulate the economy.

I

In 1930 some very eminent Chicago bankers made the categorical statement that the Great Depression of the 1930's, sparked by the stock market debacle of October, 1929, stemmed directly from an excess of outstanding instalment credit.


Thomas C. Boushall

Yet the records show that no bank suffered a single dollar of loss based on credit extended to the hundreds of finance companies whose activities preceded the direct entrance of banking itself into this field. But these same records show the shearing off of great sections of bank capital in losses from the extension of $8 billion in call loans on stock exchange collateral, and the collapse of great banks under the weight of lump-sum mortgage loans, payable in three to five years without benefit of appreciable interim amortization.

There is as yet no evidence whatsoever that any bank closed because of losses on instalment loans to individuals in that period. While corporate, government, state, and municipal bonds were being sold at heavy discounts in those dark days, there is no record that I can find of a sale at a discount of a single instalment credit portfolio.

One of the very fine and eminent banks of that period, and even of today, advised a bank with which I am very familiar that its line of credit with it and other like banks would be canceled unless the small bank stopped buying instalment dealer paper and instead used the money to buy a selected and recommended list of corporate bonds. The lines were canceled. The instalment paper was bought. The bonds were not. The automobile paper furnished the bank an essential current profit. The loss in the bonds would have wiped out half the bank's capital.

History shows us three things about this period of stress:

(1) That the mild amount of instalment credit outstanding in 1929 was all safely liquidated by 1931 with no appreciable loss to any one, whereas government agencies by the alphabetical dozen came to the rescue in other credit areas during that unhappy period to save banks, insurance companies, and other lending agencies and corporate structures that were collapsing from the impact of losses sustained.

(2) That when it became necessary—in fact, essential—that the economy be restimulated and bank credit released for use by the people, who were being all but neglected by banks, the government in the form of the FHA turned to the instrument of instalment credit to build confidence in bank policy of granting loans to the masses that would create a mass demand for goods produced in mass quantity that would in turn create mass employment and increased national income that would in time become self-sustaining. As a result, billions upon billions of credit flowed out from the banks, insurance companies, Federally sponsored and guaranteed savings and loan associations, and government banking facilities; and it flowed out by means of the same instalment credit that a few years before had been considered somewhat less than respectable.

(3) That when at least ½ of 1% was set up to absorb possible losses on instalment loans running from one to 30 years to buy anything from a hot-water heater to a whole house and lot, this ½ of 1% has so far proved far more than adequate to absorb all losses incurred and leave a handsome reserve for the future.

II

Having looked briefly at the record of instalment credit during the difficult years of depression, I want to lay down some premises with which I believe all of you assembled here today are in accord. It is my earnest hope—and I believe the hope of the officers of the American Bankers Association and the Federal Government—that banking's chief executives throughout the country either are now or soon will be in accord with what I shall try to set forth. It may be that there are a great many top managements of great and small banks throughout the country who are not in agreement with these premises for the simple reason, in my opinion, that they have not taken time to study the field and look at the record with sufficient thoroughness. To be frank, until these reluctant financiers do acquaint themselves to this essential degree, the whole of banking will not fully respond even though the managements of the very largest banks and some of the very smallest and hundreds of banks of intervening size have long since accepted and have acted upon and are acting upon these premises in as full force and effect as can be reasonably undertaken.

These premises have been so presented, debated, analyzed, researched, put to practical test, and proved out so completely that it is needless to elaborate upon them in detail for the benefit of this audience. I merely state them as essential background to the decisions the banking fraternity of America must make, and in making will either serve or fail the American people at a critical point in their developed leadership of the free world today.

There are 10 of these premises:

(1) The people of the United States of America have built the world's most successful economy on the thesis of the recognition of the importance and the attainment, establishment, and maintenance of the essential God-given dignity of the individual as the goal and apex of the civilization of the human race.

(2) In seeking the fulfilment of this goal, the evolution of our agricultural and industrial economy and the formation and functioning of our governmental processes at all levels have forever placed the individual as master and the agencies of the economy or the government as servants to fulfill these ends. Abraham Lincoln summed up this premise in his inimitable phrase, "Just as I would not be a slave, neither would I seek to be a master of others."

(3) The concept of the mass production of goods for individual consumption and in the introduction of labor-saving machinery that enabled the employer to pay an ever rising wage to the increasing skill and productivity of machine operators has been, is, and perhaps always will be a particular genius of American management not yet fully appreciated by other nationals whose end goals are not inspired by the same spiritual concepts as we hold in this remarkable country.

(4) Two old-world concepts have not atrophied the economy of this country as they have that of other older tradition-ridden lands: first, that it is unsound, wicked, and against all tradition to borrow money to buy that which one's current cash savings will not provide; and second, that the world markets should be divided up by the producers of goods to prevent competition that would reduce profits of the privileged classes or cause the installation of expensive new machinery to meet competition and require the training and higher pay of skilled workmen even though they in turn might become eventual consumers of the larger output of goods.

(5) As a corollary of four above, mass credit has been recognized as an essential concomitant of mass employment to create mass production and make possible mass consumption, which constructive or benign spiral has served to accelerate the growth and development of the American economy to such comparatively fantastic proportions that we have not only become the most currently prosperous people on earth in terms of income but also in terms of retained wealth distributed among the mass of the people.

(6) The banks of the United States have since 1933 gradually acquired a rising proportion of the credit being extended to the purchasers of the output flowing from the production lines of American factories; that the projection of this tendency foreshadows an increasingly critical part that the banks are playing in this direct chain of action and hence a rising responsibility for the continuation of such credits at present levels related to national income and a responsibility as to the degree to which consumption credit shall be made available to the American people today and tomorrow.

(7) The popularity, acceptance, support, and defense of the American private enterprise system is wholly dependent upon its increasingly useful service to the people of this country through a rising quality and volume of goods at a reducing cost made possible through maximized consumption—consumption which is inseparably and inescapably tied to the ability, willingness, and enthusiastic encouragement of the banks of the United States to supply the credit needed to finance the purchase by the ultimate consumer of mass-created goods and services.

(8) The record of payment of the American people to accept and meet their imposed tax obligation, which is the inherent strength behind our Federal Government bonds, is paralleled by an equal and unexcelled willingness to accept and meet their voluntarily developed instalment credit payments.

(9) The pattern of purchase of so-called hard goods—automobiles, home equipment and appliances—and the settlement of current bills, school costs, hospital expenses, and like family living requirements is now so inextricably interwoven into our banking system that the opportunity to withdraw from rendering this type of service has long since passed if the banks of the nation wish to keep their status and grow in public esteem as servants of the people.

(10) The final premise of this decalogue of banking is that the advanced economy and society which we here in America have created has developed to a point where mere survival and existence is no longer a problem for the vast majority of our people but where modes of living, kind of employment, location of residence, and hours of work are matters of choice; and where leisure time is available for vacation, recreation, spiritual development, and cultural advancement. As a result, American mass production is not geared to the basic needs of individuals but rather to the fulfilment of their desires and ambitions, which are such an integral part of every man's own effort to raise his standard of living. This makes it imperative that the banks of this country set aside a sufficient amount of their loanable funds to assure the availability of all the credit that is needed to allow the American people to fulfil their desires and thereby sustain the flow of raw materials from fields and mines and forest and sea on into soft and hard goods, food, and services, diversion, and education.

III

Secure in the knowledge of the untarnished record of instalment credit which is behind us, and with the 10 basic premises I have tried to outline before us, the present critical point in the economic history of our nation presents a challenge which the American banking fraternity cannot afford to ignore.

That challenge simply stated is this: banking must accept instalment credit on its record, encourage and expand its use, and by so doing serve the American people well in these important times.

This challenge is couched in terms of the economic, social, and spiritual expression of the domestic life of our people. It contains the explosive quality of the maintenance of our economic standards and productive capacity, so that, by offering to share with the rest of the world, the American people have attained the leadership of the free peoples and have become the defending champion against those forces behind the Iron Curtain who await their day of victory should our system of free enterprise collapse.

If there are those among you here who themselves believe the banks should draw back and let the tempo of our productivity die down because there might be small losses to be borne in a continuation of sound credit extended to good American working people, they must weigh the consequences of that action.

If there are those among you who come from banks whose top managements have indicated a fear of this type of service, are frightened by a small rise in delinquency, are fearful of some losses in a possible era of rising unemployment—seek to have that management give consideration to the alternatives.

The Federal Government promises to move in wherever an economic vacuum may even indicate development. The present Administration has assured the people of all the stimulus that the economy may need to keep functioning at the current or even a higher rate. Consider a rising tax rate to support such measures and compare that possibility with the possible slow pay of a small per cent of your accounts and an even smaller per cent of eventual loss. Consider a loss reserve of ½ of 1% of volume that should be set up out of current income, and compare it to 1 or 2 or 5 or 10 percentage points rise in your present tax rate.

The challenge to the bankers of America is to consider a larger diversion of funds into credit that will stimulate consumption and raise production under the aegis, under the genius, under the control of the American free enterprise system. Indeed it is not to stay the process, withhold credit, and atrophy the very program, that for 20 long years under a New and Fair Deal Government we hoped one day we might find full and free opportunity to express.

Go back, if you please, to 1940 or 1945 or 1950; envision a change then of Federal Administration that would say to business and to banking, "We want to encourage and not hamper business. We want free enterprise and not government to see to its stimulus, expansion, and fulfilment. We want to reduce taxes and put more money in the people's hands for them to spend on their own choice, and not have their money taken in taxes and spent by central bureaucrats."

It would have been beyond our fondest dreams four, nine, or 14 years ago.

Today we have it. Today we must not be afraid. Today we must calculate the risks of the alternative.

Today the challenge to banking is to seize the initiative, offer the credit that will stimulate the economy, despite what small risks may be involved. Banking must give that impetus, under a sympathetic and cooperative government, which will not only sustain but will serve to expand soundly and constructively the economy of the greatest people in the greatest land that Providence has let emerge in this day and time.

*An address by Mr. Boushall before the National Instalment Credit Conference of the American Bankers Association, Chicago, Ill., March 24, 1954.

Hulburd & Johnston Partners in Fahnestock

Fahnestock & Co., 65 Broadway, New York City, members of the New York Stock Exchange, announce that DeForest Hulburd and Hulburd Johnston will become limited partners in their firm as of the close of business on April 30th, 1954.

Gustaf M. Benson and Samuel J. Smith will become associated with Fahnestock & Co. in Chicago and will continue to manage the former branch offices of Hulburd, Warren and Chandler. Frank J. Young will continue in his supervisory capacity on the Floor of the Chicago Board of Trade.

The offices of Hulburd, Warren & Chandler in Battle Creek, Bay City, Flint, Grand Rapids, and Kalamazoo, Michigan; Dixon & Kankakee, Illinois, Kentland, Indiana, Madison, Wisconsin and Toledo, Ohio, will become offices of Fahnestock & Co.

Cohu Announces Wire To First Securities

Cohu & Co., members of the New York Stock Exchange, announce the establishment of a private wire service from their Philadelphia and New York offices to Chicago in association with the First Securities Company of Chicago.

Chicago Analysts to Hear

CHICAGO, Ill. — The Investment Analysts Society of Chicago on May 6th will hear George P. Hitchings of the Ford Motor Company who will speak on the "Automobile Industry and General Business in 1954."

The next meeting of the association, following the Analysts' convention, will have for its subject Philip Morris & Company, Ltd., Inc.

Pros and Cons of the Closed Shop Issue

By ELINORE MOREHOUSE HERRICK*
Personnel Director and Editorial Staff Writer, New York "Herald-Tribune"

Contending ban against the closed shop in the Taft-Hartley Act is breaking down, because of the exclusive bargaining powers given to majority representative of employees, prominent labor relations expert says there is an inevitable tendency toward seeking the closed shop when unions take over management of welfare funds. Upholds Taft-Hartley ban on union-forced discharge of employees, and points out, once employer has accepted principle of compulsory unionism, he is stuck with it. Stresses value to employers in dealing with responsible union to which workers are bound and to which all employees belong.

Personally I have very mixed feelings about the closed shop. It was devised long before workers had a legally protected right to organize. It was a defensive measure to prevent employers from destroying unions and from breaking down hard-won wage scales. The worst evil of the closed shop comes when it is joined to the "closed union." Shortly after World War II I recall that two young veterans came to me to see if I could help them get jobs in the "Herald Tribune" composing room. Both had uncles who were working there and who were members of "Big Six"—the Typographical Union. They wanted to join the union, but said they had been told by the union that merely having uncles who were members did not qualify them for membership, and that to gain admission their fathers had to be members.

Elinore M. Herrick

Although the Taft-Hartley Act bars the maximum form of closed shop, there are many pressures arising from the form of exclusive representation bargaining which is our national legal pattern and from the wide-scale adoption of "fringe" benefits that are leading more and more to the breakdown of this ban in the Taft-Hartley Act. I shall point out some of these aspects as I go along.

The Closed Union

Whether we like it or not a case can be made for "the closed union." The highly successful union which has won high wage scales and all the "gimmicks" it could devise will attract more recruits to the industry than there are jobs. In an industry which contains irresponsible, small employers, there is some reason for not only the closed shop but the closed union as a means of protecting the gains won from the chiseling employer. I remember the fly-by-night garment shops of the 1930's who, literally, overnight fled from New York City to New Jersey and Pennsylvania and what a dreadful social and economic problem they posed to the International Ladies' Garment Workers' Union. The ILGWU union shops and contract clause binding an employer not to move for the duration of the contract were a direct fruit of those experiences and it has been good for New York City's economy.

There is an inevitable tendency toward seeking the closed shop when unions take over the management of welfare funds. Unions with welfare funds can not be expected to admit new members, take responsibility for them, when the union knows that its particular labor market is glutted or when it has unemployed members, letting new members drain off benefits to the detriment of old-time members. Some of the testimony before the present session of Congress has indicated that there have been abuses of these union managed funds by withholding benefits from workers who have shown less than 100% enthusiasm for the union leadership. Even when such funds are set up as jointly managed by unions and employers, it is regrettable but necessary to note that employer representatives on the fund too often fail to measure up to their responsibility in that connection. The scandalous misuse of the building service union fund in which Howell was murdered is a case in point—there was employer representation in the management of that fund in theory but not in practice.

Unions want the privileges that flow from the status of "voluntary associations." Too often they want this without the responsibilities. A major responsibility of free association is to persuade rather than coerce membership. The unions have so many powerful arguments for gaining members by persuasion that one would think they would be more aware of the greater loyalty that persuasion rather than coercion generates. Hardly a day passes on my own job that I am not made aware of how much trade unionism has done to raise the wage level, to protect workers from unjust discharge and to improve working conditions. I know also that strong unions have imposed many costly and unsound practices on industry — "featherbedding" in my own industry—the working rules on the railroads for another example. But I look at an employee record that shows a starting wage of $4 a week back in the 1920's and today this same man or woman is getting $85, $90 or $100 for virtually the same work. To a very large extent the union is responsible. The big jump in wages in these cases came the year of the first union contract. Because so much of the present well-being of the workers is due to the efforts of the unions through collective bargaining, I don't really like "free riders" myself and have a fundamental sympathy with union determination to have all employees in the collective bargaining unit join the union—at least the younger employees. I think the old-time employee who does not want to join the union presents a problem which I will discuss a little later.

But I remember with sadness and a sense of guilt the man who in 1933 had a job with the Lily Tulip Cup Company. When Bix Six organized that plant they forced his discharge. I found out that 20 years earlier he had been a member of the union, had gone on strike at a Kingston print shop but had gone back to work before the long strike had ended. He had had to choose between the union and starvation for his wife and seven children. This was before unemployment insurance and large scale welfare relief plans. Parenthetically, I don't think we realize fully what a big difference these social devices have made in the psychological approach of workers to strikes, their willingness to embark upon them and to stick with them. Because this man had helped break a strike 20 years earlier the union hounded him and ousted him from the Lily Tulip Cup job.

This is one case—and there are many others—has stuck in my throat for 21 years. But there was nothing I could do about it. I was then Chairman of the New York City Board to administer Section 7A of the NRA. But to this day that man haunts me. I argued with the Big Six leaders who were my friends but to no avail. The Taft-Hartley Act now prevents a union from forcing discharge for any reason other than non-payment of union dues or initiation fees. Even if the union expels him the employer can not discharge him for other than these two stated reasons. From my standpoint, this is one of the important reforms produced by the Taft-Hartley Act. I hope this provision of the law is never weakened, though President Eisenhower has proposed that it be.

I operate now under a union shop agreement which requires that nine out of 10 new employees must join the union within 30 days to retain their jobs and that present members must maintain their membership. This form of agreement protects the rights of the long-term employee to remain out of the union if he wishes. I save our one in ten exemptions because I really believe it is better for the management to have all employees in the union. It reduces internal friction. In addition, I want to use the exemption when an individual is reluctant to join or when he is to fill a top grade job which is likely to lead him into a supervisory position. I always urge the new employees to be active in the union, to attend meetings and really take part in the making of union policy.

Compulsoy Unionism Made More Complex

The right of exclusive bargaining which the Wagner Act imposed and Taft-Hartley has continued and which is the bed rock of protected union organization today, has made the problem of compulsory unionism much more complex. The union shop is an attempt to reconcile degrees of compulsion with the basic tenets of a free society and the freedom of association under which unions claim to operate. Exclusive bargaining rights whereby the union is legally required to bargain alike for members and nonmembers in the bargaining unit tends to force the closed shop. The latter leads toward union monopoly in the labor market. In an industry where the closed shop in its various forms has long been established it is unrealistic to think that the Taft-Hartley Act has abolished a *de facto* closed shop. Politically the subject of union monopolies seems too hot to handle. Yet, it seems to me, with the extension of unionization and compulsory unionism that the monopolies being created thereby will have to be faced before long.

One aspect of this problem is the fact that, although we speak of determination by majority whether a given union should receive exclusive representation rights, actually a majority of those who vote—not a majority of those in the bargaining unit—decide the issue. That is why during the early Wagner Act days employers urged **all** employees in the bargaining unit to vote. But they don't all do so. That is also why employers also carved out some mighty strange bargaining units when consenting to an election because they wanted to include the votes of persons they assumed would be anti-union. It seldom worked as planned. After the union is established we pass clearly from any semblance of majority rule to minority rule; 15-20% attend union meetings and decisions are reached chiefly by voice vote. So actually you get the coerced vote of a minority which can make its policy bind **all** because of the fiction of exclusive bargaining. This hard core minority can force the granting of some form of compulsory unionization. Even when the government ran the union shop elections the results were overwhelmingly for the union shop. When the union has the power of a closed shop or even a union shop the power delivered to it by a minority is very great.

Employers' Responsibilities in Relation to Closed Shop

What are an employer's responsibilities in connection with the closed shop in any of its degrees or forms? When the Newspaper Guild appeared to be Communist-dominated I know that I could never have forced myself to consign employees willy-nilly to membership. Suppose you are dealing with a racket-ridden union and you know that a large part of the wages the union won from you are going to be taken away from the employees on your payroll—what is your responsibility then? Can an employer always afford to act according to his convictions?

The Protestant Council of Churches has made a study of the extent to which Christian ethics are carried forward into our business lives. But there are hard realities in opposition. I have a great respect for the leadership of the Newspaper Guild today but what is the guarantee that it will maintain the caliber of its present leadership?

Once an employer has accepted the principle of compulsory unionism as a practical matter he is stuck with it and so are his present and future employees, despite the provision of the Taft-Hartley Act which gives the employees the right to petition for a decertification vote. I have seen a few instances of the kind of internecine war that such a situation develops and the destruction of production resulting from the turmoil of the fight. And there are too many examples of firms that have been forced out of business because their employees rejected a powerful union, such as the Teamsters' Union.

But where you have a responsible union there is much good that can flow to an employer from having a work group that is bound together by the ties of union membership. The union has then a status of authority which it can exercise responsibly. For example, back in 1948 we were having a dreadful time with absenteeism, percentages of paid days lost to total work days were running as high as 11% in some departments, 4.6%, 3.9%, etc. I put the problem up to the Newspaper Guild for it is in their contract that we have an exceptionally liberal sick leave program up to 20 weeks full pay and 20 weeks half pay after

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*An address by Mrs. Herrick before the Spring Meeting of the Academy of Political Science, New York City, April 21, 1954.

THE MARKET . . . AND YOU

By WALLACE STREETE

Industrial stocks were troubled by occasional irregularity this week, but the rails were able to ignore it all pretty well to keep the nine-month divergence between the two groups alive. Except for recent sprinters like Douglas Aircraft, which gained 15 points last week and lost as much as five of them in one session this week, it was all very orderly and rated as merely a technical reaction.

* * *

The flood of annual meetings and dividend declarations kept most of the market in a highly selective frame and there was considerable evidence that investors were far from happy over the mere ability of a company to keep up its regular payment, particularly in cases where earnings had indicated that some largesse by the directors might be in order. These, for the most, were largely momentary upsets with recovery rather rapid.

* * *

Rather widespread expectations that U. S. Steel would have some good dividend news in the first quarterly report of the year were dashed when the usual 75 cents was voted out of earnings of $1.48. It failed to upset the fanciers of the steels too much, particularly since Bethlehem's meeting today is of some unusual interest since at the last meeting the usual payment was doubled, presumably as a one-time shot.

* * *

Cushioning Power of Taxes

U. S. Steel did serve to illustrate the cushioning power of taxes which is getting to be a familiar story. The quarter's sales fell some $97,000,000 but with taxes down $33,000,000, the final net profit reported was off only around $4,545,000 from the comparable period a year ago. It works out to $1.48 against $1.65 which is a moderate trim on a slash in gross of that scope. And it belies the dour estimates of a couple of years back that red ink would appear at less than capacity operations. The rate for Big Steel was less than 81%.

* * *

As far as the temporary declines are concerned—and April has had its full share of setbacks including two late tapes — the urgency of the selling seems to be dwindling on each successive occasion. Early in the month a one-day upset trimmed the best part of three points from the industrials and last week's correction was a penny under two points while this week's reaction just managed to struggle across the full point line. And none of these one-day halts has kept the list from recovering rapidly and forging further into the area traversed before only in 1929.

* * *

Continuing High Volume

Among the week's incidental achievements was the 24th day of volume exceeding 2,000,000 shares which, in less than four months, exceeded all of 1953's efforts when only 23 sessions produced that much volume. Apart from being of comfort to the brokers, the volume indications lean a bit to the favorable side technically since the best session of the year so far—2,690,000—was achieved as the industrials pushed decisively across the 300 line.

* * *

Of similar profit to the arbitrageurs was the start of trading in the new General Electric stock on a when-issued basis, the shares being those to be issued in a three-for-one split effective next week. The new shares began trading at a price equivalent to a full point higher than the old issue, which is plenty of room for a nimble trader. The split jumps GE from seventh to second largest issue listed, its new total of 86,537,782 shares being second only to the 88,514,000 of General Motors, and well above third-place Jersey Standard's 60,571,000 shares.

* * *

New Lows Increasing

That it was far from a one-way street throughout was best illustrated by a rather persistent increase in the list of issues making new 1954 lows. With only one break in the chain, the daily total of new lows has shown a steady increase for the last dozen sessions and this week comprised the longest list seen so far this year. The coal, carpet, textile and sugar groups had members prominent in the new lows; and Schenley and Studebaker, no newcomers to the tabulation, continued to show in those of this week.

* * *

A distinct casualty of the week was National Automotive Fibres, which came to the point where it had to halve the dividend. The issue reacted a bit violently, losing 20% of its value in one session, and in the retreat wiped out all ground gained laboriously since 1949.

* * *

American Telephone was back in the spotlight to an extent by finally making an appearance on the new high list after nudging right up to the line a couple of times, only to find the task too much. And, as a matter of fact, the year's low for the issue so far is well above the lows posted every single year since 1946 although crossing the 165 line is still well below the 310 attained in 1929 and the 200 reached in 1946 when the industrial average was far under present levels.

* * *

Profit-Taking in Aircrafts and Metals

Profit-taking after the recent good strength had to take the lion's share of the blame for the setbacks in the aircraft and metal shares. But even in the case of Douglas and the rather severe buffeting it had to take, the present price is still some 50% above the final price of 1953 and hasn't dislodged it from its second-place spot as one of the issues that gained the most pointwise since the end of last year. The 93-point improvement in International Business Machines since the end of December, of which it has subsequently retraced the merest handful, is by far the year's best gain in points.

* * *

The automobile shares and, to a lesser extent, the shares of auto suppliers are still far from building up any investor following. Only General Motors shows any inclination to buck the downdrift. Rails, similarly, are not popular at the moment because of poor results during the early part of this year. But for them it is merely the continuation of an aged trend. The report by Massachusetts Investors Trust, showing sufficient confidence to warrant an important addition of Santa Fe and a good increase in Union Pacific holdings, helped stiffen the two issues concerned. But it wasn't of much concrete help to the rest of the group.

* * *

Technically, little in the way of indications are being given by the market currently. Industrials ran into a bit of congestion at about 315, as had been expected in more than a few circles. Rails are in midstream, threatening neither their 1954 high which has rebuffed them a couple of times, nor their year's low. Consequently no "signal" areas have been breached.

* * *

Reaction Ahead?

Psychologically, the expectation that some reaction is drawing close seems to be spreading. For one, the industrials have climbed a long way without any worthwhile correction and the minor ones that have come along have been wiped out speedily in subsequent recoveries. There is always the rail divergence to generate caution, too. But in looking for an overdue reaction, it is a question of size.

* * *

The bullish element is still far in the majority and only minor reactions are seen. Some analysts see at least 325 or 330 for the industrials before any reaction of an intermediate nature would be kindled. Others who have watched the market advance far beyond expectations, merely dismiss any secondary reaction as not being indicated "at this time."

[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.]

Recession to End Soon, but Full Recovery May be Delayed

By MURRAY SHIELDS*

Vice-President and Economist
Bank of the Manhattan Company

Although predicting an early end of the current business recession, Mr. Shields points out that, because of the big buildup in debt, the heavy increase in military outlays and the substantial expansion of productive capacity accompanied by increase in stocks of consumers durable goods, a fairly long pause in spending may be necessary before the forces of recovery can fully reassert themselves.

The decline in business activity which began almost a year ago should soon have run its course although the necessity for far-reaching readjustments after so long a period of boom may well mean that full recovery will be delayed until 1955 or perhaps 1956. Several developments suggest that the declining phase in business should end within a few months:

Murray Shields

—The stock, bond and basic commodity markets which view the outlook with a cold and realistic eye and day by day reflect the efforts of investors, traders and purchasing agents to place their bets on the future are giving "boom" signals instead of reflecting any fear of depression.

—Some of our "bellwether" indexes, especially housing construction contracts and current and planned capital outlays by business, are showing no signs whatever of any material recession.

—If we had not lived so long in a super boom, the present situation would be viewed not as a recession but as a period of pretty good but highly competitive business.

—Inventory contraction should soon reach a point where many businesses will have to reenter the market.

—Retail sales have declined far less than production, and

—Despite the declines which have occurred in the past nine months, incomes, profits, business volume, employment, retail sales and business investment are today far above predepression, prewar or pre-Korean levels.

*An address by Mr. Shields before the Annual President's Dinner, Milwaukee Control of the Controllers' Institute of America, Milwaukee, April 20, 1954.

Significance of the Business Decline

Business volume has undeniably declined more than everyone hoped would be the case and more than many had anticipated but there remain many reassuringly strong elements in the present economic situation. One of them is that it is obvious beyond question that what has happened to business in the past nine months has not made "a bunch of economic hypochondriacs" out of our businessmen. It is of tremendous significance that the decline in business—

(1) Has *not* caused businessmen to panic—there being, on the contrary a spirit of calm confidence all through the business structure.

(2) Has *not* caused businessmen to reduce their estimates of the long-term growth potential of the country—there being little evidence that capital expansion programs based on sound and realistic market analyses are being cut back or delayed.

(3) Has *not* caused businessmen to "dive for the nearest storm cellar" but has been used by them to make realistic reductions in costs and inventories—there being every assurance that before many months have passed inventories will be sufficiently in line with sales to permit many concerns to reenter the markets and that reductions in costs will soon begin to stimulate demand, and

(4) Has *not* caused businessmen to fear "another 1929" but has deepened their conviction that what basically is involved in the "recession" is a return to more nearly normal conditions after a long period of overinflation, overemployment, overuse of production facilities, overly-easy selling and overly-easy profits—it being regarded as neither shocking nor surprising that the *normal* condition for business is one in which

—Industry is operating at a bit less than capacity.

—There is a moderate amount of unemployment and no overtime.

—Business volume is moving up *and down* but with the long-term trend firmly upward.

—Prices are fluctuating up and down around a level instead of an inflationary trend, and

—Competition is severe enough to "separate the men from the boys."

Can We Talk Ourself Into a Depression?

With businessmen so well informed, so realistic, so statesman-like and so busy drawing up plans for a great expansion over the long-range future, I cannot bring myself to believe that we can "talk ourselves into a depression."

What concern there is as to the outlook among some government officials, economists and businessmen appears to be based on two factors. First, is the conviction that after so big a buildup in debt, so sharp a rise in military outlays, so substantial an expansion in productive capacity and so

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Today's Banking Problems—Tomorrow's Opportunities

By BENJAMIN F. SAWIN*

President, Provident Trust Company of Philadelphia, Philadelphia, Pa.

Commenting on problems facing bankers, Mr. Sawin points to government's low interest rate policy as cutting into profit margins. Cites downward earnings trend of banks in Third Federal Reserve District. Calls attention to need of better utilization of bank personnel in building business volume and in reducing costs, and concludes banks and the economy at large are in sound condition.

Problems are incident to progress. Like death and taxes, they are always with us. If some of the present indications materialize, we shall soon be confronted with a new crop of problems. As is usually the case, they appear more difficult than those previously experienced. In any event, I believe that the maintenance of a satisfactory profit margin in the next several years will be more difficult than in the recent past.

Profit margins are, of course, of paramount importance to all of us and in order to evaluate the situation which has developed since 1945, it might be well to review briefly certain pertinent figures of the member banks of the Third Federal Reserve District which embraces the area in which most of us conduct our businesses.

Gross earnings of District member banks have increased from $131 million in 1945 to $256 million last year.

Operating expenses, excluding taxes, have increased from $79 million to $154 million.

Thus, net operating earnings before income taxes have increased from $52 million to $102 million.

By the very nature of a bank's business, however, these improved net earnings are vulnerable to the impact of lower money rates and possible lower loan volume with little prospect for material shrinkage in our higher operating costs.

Up to this point, bankers and businessmen might say, "We are all in the same boat." Financial institutions are unique in one respect. In no other field of enterprise does Government seek to lower the price level. Its efforts are rather directed toward price support. Deflation is unpopular to most Americans except as applied to interest rates. For some reason cheap money has come to be regarded as a primary economic stimulant, although the record does not offer much support to those who advocate that theory.

The Loan Bank Earnings Trend

The problem posed by cheap money will become apparent when we observe the changes which have occurred in the earnings pattern of our Third District member banks since 1945. The increase in gross earnings during this period has had three principal sources—

(1) An increase of about 21% in total assets.

(2) The shift from Government bond holdings into higher income yielding loans: Governments comprised 57% of assets in 1946 and about 38% in 1953. Loans, on the other hand, increased from 14% of total assets in 1946 to 33% last year.

(3) The rise in interest rates: The average return on Government holdings increased during the period by about 20% to 2.16%. Loan interest rates throughout the District increased significantly mainly in the case of the larger banks, whose rates are more sensitive to changes in the money market. Thus, the average loan interest rates of banks with deposits over $100 million increased from a little better than 2½% in 1946 to a little under 5% last year, almost doubling gross income.

The cumulative effect of these several factors has been to increase gross earnings as a percentage of total assets from 2.2% to 3.16% in the period 1945 to 1953. During the same period operating expenses, excluding income taxes, have increased from 1.5% of total assets in 1945 to 2% last year. Our basic problem is related to these ratios. In the first place, we must undertake to compensate for the effect of cheap money on gross earnings. Second, we must explore every means of operating more efficiently.

Looking first at the gross earnings picture, it seems to be the consensus that bank loan demand has temporarily passed its peak. Any shift from loans back into Governments will, of course, adversely affect earnings. Efforts by our commercial banks to resist this tendency will not only bolster earnings, but should also have a stabilizing effect on the economy generally. This does not suggest any relaxing of proper standards in the extension of credit. Together, however, we must see to it that legitimate demands for bank credit are met. The alternative is to invite a return of aggressive competition by Government and other lending agencies for business which should properly be taken care of by the banks.

A specific reference to Consumer Credit is appropriate in this connection. Consumer Credit plays a vital role in our economy, and is unquestionably responsible in large measure for the universal ownership of automobiles, electrical appliances, and other goods, which contribute to our high living standards. Delinquencies and losses should be expected to increase during a period of business readjustment. Immediate problems, however, should be considered in the light of volume potential. Adherence to sound principles of credit investigation and extension will pay off in the future as they have in the past. Satisfactory volume should be obtainable without resorting to marginal credits, short equities, or loose terms. Consumer Credit has more than justified its existence and should continue to contribute substantially to commerical bank earnings.

Reappraisal of Portfolio Policies

Money market developments of the last few years, and particularly the past twelve months, make a re-appraisal of investment portfolio policies appropriate. Experience during this period has demonstrated the value of a maturity schedule geared to a conservative forecast of deposit fluctuations and loan requirements. One of the unfortunate aspects of a cheap money policy is that it has a tendency to induce an undue lengthening of maturities. The pressure to maintain earnings is often greatest when the bond market is highest and most vulnerable to price depreciation.

Turning to the expense side of the profit and loss statement, it is evident that economies will, in most cases, be difficult to realize. In the case of Third District member banks, salaries and wages currently comprise about half the total of operating expenses, exclusive of income taxes. This is easily understood when it is recognized that ours is a service business which depends primarily on people. The quality of service is determined largely by the caliber of personnel. The present day banking and trust business imposes exacting personnel requirements, and we must compete in the market for men and women possessing the necessary qualifications. This accounts for the increase of about 120% in salaries and wages of the Third District member banks since 1945. This item will be very difficult to reduce, although better utilization of personnel is more than a possibility in most banks. The labor shortage of the War and immediate post-War periods demonstrated the value of a personnel inventory. Many hidden talents were uncovered under the necessity of filling vacancies.

The Operating Costs Problem

How can we obtain better utilization of personnel in building volume and reducing costs? We believe the answer is "organization." As we all recognize, a first essential of good organization is a review of operating plans and policies followed by a close study of major functions. Other essentials include—

(1) Clear definition of areas of responsibility so as to permit measurement of performance.

(2) Delegation of authority to discharge the defined responsibilities.

(3) A more complete use of the familiar management tools, such as work flow studies, application of work measurement standards, and development of unit costs.

(4) Systematic review of policies, procedures, equipment and personnel standards.

Just two of many examples from our own experience will illustrate the benefits to be gained from the activities of a methods and planning group.

Installation in our branches of automatic detective systems not only saves us nearly $30,000 per year, but the safety and security of our premises have been improved.

Conversion of the accounting of a large department to tabulating equipment enabled us to handle a volume of business that almost doubled within a year without undue operating difficulties or a significant increase in the payroll.

The constant review of methods and the search for cost reductions are doubly important during a period of unusual pressures on earnings and go hand in hand with earnings forecasts and a system of expense budgets and controls.

What sales are to industry, deposits are to a bank. A forecast of sales and operating earnings is as essential to the proper management of a bank as to any other business. Expense budgets and controls are simply an orderly method of allocating and spending intelligently the available share of the company's gross earnings. With the downward pressure on income and the upward thrust on costs, there is no substitute for budgets and forecasting.

Federal Reserve Policy

No discussion of commercial banking problems would be complete without reference to a most important external influence on bank earnings. The Federal Reserve System is headed by a team of exceptionally able and conscientious men who are very sensitive to the statutory responsibilities imposed on the System. The criticism of "too much too soon" has been applied to the System's easy money policy, but in fairness to the Reserve authorities it must be conceded that they could ill afford to do less than exert all of their great powers in buttressing a faltering economy. It is to be hoped, however, that not only the Federal Reserve authorities but Treasury officials and the Congress as well will recognize that the safeguarding of the earning power of commercial banks and other financial institutions is one of the prime essentials of sound monetary and credit management.

In conclusion, I have not meant to imply by any matter of means that banks or any other businesses should prepare for a catastrophe. In most segments of our economy business is good today—the overall volume of business in the country is still at a high level and over 60 million people are gainfully employed. I merely wish to suggest that in banks particularly a closer look toward new or enlarged volume possibilities and a closer study of operating procedures and cost controls should be of benefit under any circumstances.

*Talk by Mr. Sawin at the Correspondent Bank Conference and Business Forum of the Provident Trust Company of Philadelphia, Philadelphia, Pa., April 21, 1954.

R. J. Wallace With La Salle Securities

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Richard J. Wallace has become associated

Richard J. Wallace

with La Salle Securities Co., 208 South La Salle Street. Mr. Wallace was formerly with Paine, Webber, Jackson & Curtis and Dempsey-Tegeler & Co.

Dividend Security Co.

(Special to THE FINANCIAL CHRONICLE)

BURLINGAME, Calif.—William G. McLeod has formed Dividend Security Co. with offices at 1218 Donnelly Avenue to engage in a securities business.

With Arthur M. Krensky

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Robert K. Wallace has become associated with Arthur M. Krensky & Co., Inc., Board of Trade Building, members of the New York and Midwest Stock Exchanges. Mr. Wallace was formerly with Merrill Lynch, Pierce, Fenner & Beane and C. J. Devine & Co.

The Mortgage Market Outlook

By MILES L. COLEAN*
Economist, Washington, D. C.

Asserting the supply of funds for mortgage investment promises to grow more rapidly than the demand, Mr. Colean furnishes data regarding the mortgage loan business in 1954, which indicates "the mortgage business is still going along in a pretty healthy manner." Lists recent encouraging developments in mortgage markets, but admits if business should sink lower, mortgage activity "would get a setback."

The total volume of new mortgage loan business in 1954 will be close to that of the all-time record year of 1953. Delinquencies will not be serious. Mortgage money will be easier to obtain, especially for guaranteed and insured loans; interest rates will be lower and terms more generous than those commonly offered in 1953. The supply of funds for mortgage investment promises to grow more rapidly than the demand, creating the prospect of competition among lenders and shopping for loans by borrowers. Even a little old-time "portfolio raiding" may enter the picture.

Miles L. Colean

The last time I spoke to a Mortgage Bankers audience on this subject was in November at the Miami Convention. The prospect as I then saw it was not much different than it appears now. The "mild recession" that I referred to on that occasion has become somewhat less mild. However, the decline still has not been a severe one and in a number of respects has not yet been as severe as the not very severe dip in 1949. In the words of one old hand at economic analysis, it is still a "depression de luxe."

So far, the mortgage business certainly has not been any more adversely affected than was predicted last fall. In fact up to the first of the year it was hard to see from the statistics that it had been badly affected at all. In spite of the severe money pinch during the middle part of 1953, the year's mortgage activity developed some surprising figures. Here are some significant examples:

(1) Total recordings of mortgages of $20,000 or less reached an all-time high of $19.7 billion.

(2) FHA and VA lending — where the money pinch squeezed the hardest—did surprisingly well. At a volume of $2.3 billion for 1953, FHA home loan activity was higher than any year except 1950. And with a total of $3.1 billion for the year, VA activity actually was greater than 1952 and every other year except 1947 and 1951, and about the same as 1950.

(3) Farm mortgage lending during the year amounted to almost $1.9 billion, another record postwar year. Significant is the fact that the share of the farm loan activity being carried on by banks, insurance companies, and other private lenders is holding its own in relation to the facilities of the Farm Credit Administration. I take this to be a healthy sign.

(4) Life insurance companies acquired a total of $4.3 billion mortgage loans during 1953 — a bigger volume than any years but 1950 and 1951; and they increased their mortgage holdings by a net amount of $2 billion.

(5) Savings associations had the best year in their history, adding up to $3.6 billion net new mortgage investment.

*An address by Mr. Colean at the Western Mortgage Clinic, Mortgage Bankers Association of America, Denver, Colo., April 16, 1954.

(6) The mutual savings banks were a good deal more active than some of us thought, since the net increase in their mortgage holdings was $1.6 billion, again almost a record year, topped only by 1951.

Mortgage Business Going Along in Healthy Manner

Obviously a lot of the performance I have just recited was due to momentum created by decisions made months previously. What is happening now? The most recent figures show that the mortgage business is still going along in a pretty healthy manner.

(1) Through February, recordings of mortgages of $20,000 or less were just about the same as in the first two months of 1953.

(2) New mortgage activity of savings associations through February was up about 1% from a year ago. Nonfarm mortgage acquisitions of 40 major life insurance companies began in March to pull ahead of last year. Acquisitions now exceed those of the first quarter of 1953 by 3%. The net increase in mortgage holdings of mutual savings banks through February was 7% greater than in the same period a year ago.

(3) Judging from the activity of the major life insurance companies, farm loan activity is substantially below last year's level.

If we recall the reluctance to make advance commitments back last fall, and the decline in the rate of new housebuilding during last summer and fall, these figures (except in the farm area) look surprisingly good. Moreover, we do not have far to search to find other encouraging portents.

(1) The number of new houses being started is running ahead of all predictions. The current seasonally adjusted annual rate of private activity is actually running ahead of the total of last year. Contract awards for commercial and other nonresidential — even factory — building are larger than this time a year ago. Only new farm building is apparently much below that of previous years.

(2) Applications for FHA-insured loans are definitely on an uptrend, with a big leap ahead in March. Requests for appraisals for VA-guaranteed loans are substantially up, not only in comparison with recent months but also in comparison with the corresponding months a year ago.

(3 Outstanding mortgage commitments of life insurance companies are understood to be again at a high level, with no indication of a cut-off on future activity.

(4) The current increase in the assets of life insurance companies, mutual savings banks and savings associations—the main sources of institutional mortgage funds — is 6 to 10% greater than the increase during the early months of 1953.

(5) The rapid fall in interest rates since last summer has already made 4½% a par rate for well-selected FHA and VA mortgages over a large area of the country, with discounts reduced to moderate proportions elsewhere. High discounts seem now to be characteristic only of insured and guaranteed loans with very large loan-to-value ratios and maturities longer than 20 to 25 years.

This set of figures suggests on the one hand that the demand for mortgage funds is holding up very well, while the supply of funds is obviously large enough to meet all probable requirements. This looks like a promising set-up for doing business.

The only real weakness in new activity appears to be in the farm area; but even here there is no indication of widespread trouble. Although the demand for loans is lower than a year ago, the farm debt situation is generally in excellent shape. The ratio of debt to value of farm land fell from 35 to 30% between 1945 and 1950 despite the increase in the total volume of farm mortgage debt. Delinquency is a minor problem and shows no sign of being otherwise except possibly in the areas of extreme drought; and there the Land Banks are much more heavily involved than the private lenders. Farm values declined somewhat last year, but there is still a sound base for further credit expansion as it may be needed.

Present Situation Is "Excellent"

On the nonfarm front, the present situation can only be described as excellent. Not only has new activity held up well, but existing portfolios remain in sound shape. Foreclosures are few and delinquency is not a serious problem, even in areas hardest hit by unemployment. Property values appear to have declined in some instances, especially for older houses, but nowhere does there appear to be a threat to the basic security structure. In view of the current decline in general business activity, however, the important question, of course, is: will the urban mortgage business continue to be good? The answer to this question depends on what kind of a recession or adjustment or relaxation we are in and how long it is to last: for we all know that a good building market and a comfortable mortgage situation do not generate themselves but depend upon the existence of good conditions throughout the economy. Because construction activity lags behind the rest, its momentum will easily carry it over a minor dip. But a protracted drop in general business sooner or later is bound to drag construction with it.

Mortgage Activity Linked to Business Activity

Therefore we have to be acutely aware to what is going on around us. If we are at or close to the bottom, with an upturn to become evident soon after mid-year, there can be little cause for concern. If, on the other hand, we should drag along sluggishly or continue to sink lower throughout the year, then mortgage activity probably would get a fairly marked setback toward the end of 1954 or early in 1955.

At this stage, unfortunately, no one can tell what eventuality faces us. The range of viewpoint one can get from reading a week's output of business magazines or listening to any aggregation of speakers is evidence enough that we are more generously endowed with the gift of tongues than with the gift of prophecy. Nevertheless, we cannot avoid trying to evaluate the future. We cannot do business without planning and we cannot plan without forecasting. We have to make the best judgment of the future than we can from the knowledge that we have and make decisions accordingly.

It is, of course, well to keep in mind that we may be wrong, and, like a good general considering his strategy, have alternative plans to meet contingencies. Nevertheless, at some point we have to conclude which are the most likely contingencies and move ahead to face them. Forecasting, after all, should be an instrument of action, and not a means for confusion. With these points in mind, let us see what we can see.

The plainest thing in the current picture is the decline in spending — government spending, business spending, and consumer spending. Never since the war has there been a time when curtailment in all three areas was going on at the same time. The drop in government spending is the most important part of the total curtailment and during the 1954-55 fiscal year may produce as much as $3 billion savings in addition to the $10 billion cut previously estimated. Business expenditures for plant expansion and modernization, while holding up better than many anticipated, is, on an annual basis, down about 4% from 1953. Consumer buying has tapered off in some lines, particularly automobiles and other durable goods, though on the whole the drop so far is a modest one.

The results of these curtailments are excessive inventories, a decline in industrial production, and unemployment. The result of unemployment can be further reduction in spending, and then a greater decline in production and more widespread unemployment. It is this snowballing effect that can turn an adjustment into a depression. Consequently all eyes are now strained to see whether this is now happening or whether out-of-line inventories can be brought into balance and production resumed before it does happen.

Through March, the decline was still on. There is no question about that. Unemployment increased another 54,000. Industrial production dropped from 123 on the Federal Reserve index to 121. The signs of a seasonal upturn—let alone those of a general recovery—were slight. As one commentator put it, "March was a seasonal dud." Except for construction, which reached a new seasonal high, the correctness of this designation could not be questioned. Nevertheless, if bullish signs were lacking, the bearish ones were definitely weaker.

The increase in unemployment in March was the smallest in six months. The number of new claims for unemployment benefits declined. Moreover, total civilian employment rose somewhat, bringing the total number of persons at work to 60,200,000. Automobile production now promises a slight upturn, and an end to the drop in steel production appears in the offing, without having reached the depth it did in the 1949 recession. Retail sales have been holding up well and should get some support from the recent excise tax cuts. Inventories generally have been put in better relation to sales, and in some lines, notably lumber, sales now appear to be running well ahead of production.

What we seem to be experiencing at the moment is a decline in the rate of decline. While this obviously would be the first stage of a recovery, it is too soon to see whether this actually is the case or whether the decline is to assume more serious proportions. The Administration gives evidence of confidence that a bottom is close at hand. While counting on the stimulus of tax cuts in the excise bill and in the larger tax bill now pending in the Senate, it has so far opposed cuts in personal income taxes beyond what is in the House bill. It has sponsored a bill to ease the terms on FHA-insured mortgages — with a proviso keeping the old terms in effect until it is decided that an extra boost to activity is needed. It has examined the possibility of expanding public works, but has withheld any action except to increase the highway program and to encourage advance planning. It has pursued a policy of easing credit but has by no means gone the limit. . . .

Bulwarks of Business

Plainly the Administration is displaying a cautious optimism. It is relying upon the fiscal, debt management, and credit actions that already have been taken, or might be taken, to supply all the steadying force that a basically healthy economy may require at this time. As evidence of underlying strength, the Chamber of Commerce of the U. S. points out eight "built-in stabilizers":

(1) The farm price program.

(2) The unemployment compensation system.

(3) The numerous private and public pension programs including social security.

(4) The Federal Deposit Insurance System.

(5) The amortized nature of most of our private debt.

(6) The volume of liquid assets held by individuals and businesses.

(7) The tax reductions already in effect or in prospect.

(8) The quick reactions which occur in our tax structure, with its heavy reliance on the income tax.

These bulwarks are counted upon by the Chamber economists to hold back a serious economic disaster. At the same time, a period of lower activity than prevailed during the defense build-up is inevitable, until an equally inevitable future growth carries us to new highs. The immediate problem is that of adjustment to an economy with materially lessened support from armament expenditures. That adjustment is still under way, but the present slackening of the trend gives prospect that the bottom of the decline may be reached in two or three months.

During these months, total unemployment should not materially increase, though factory layoffs may exceed hirings for yet some time. Soon afted mid-year, the combined efforts of reduced taxes, easy money, and depleted inventories may produce an upturn, bringing us by the year-end to a level of activity at least as good and perhaps a little better than at present.

This is the best I can make of the situation at the present time, and it seems to me that on the whole this "best" is pretty good. Where does it leave the mortgage business for the rest of the year? First we have to take into account the ponderous momentum of building activity. This already has carried us through an eight-month business decline; and from all appearances it is strong enough to carry all the way through the kind of movement I have described.

Mortgage lenders will be called upon to finance a much greater amount of new commercial building than last year. They will have to finance approximately the same amount of new housing as they did a year ago, since the outlook so far is for the beginning of around 1,100,000 new houses. From all indications, they will have to finance close to the same amount of transactions in existing houses and a great deal more of repair and improvement activity.

Unless, therefore, my forecast should be wrong—a possibility I have already alluded to — there will be a very substantial volume of mortgage lending activity during 1954, with a sufficient strengthening in business during the fall and winter to carry a good level of mortgage activity into 1955.

A Change in Mortgage Characteristics

Although mortgage lending will remain good during the year, it is certain to have different characteristics from that of last year. Just a year ago the real pinch in mortgage money was beginning, and by summer many mortgage organizations faced a problem of inventory liquidation that makes the present troubles of automobile dealers seem mild by comparison. It was not until winter that breathing came easier. But while the year ended with money much more plentiful than it had been, lending was still on a very selective basis, and less than first-class loans were still taking premium rates.

The continued loosening of the money supply raises a number of questions bearing on lending policy. Will 4½% generally be a par or better rate of insured and guaranteed mortgage? If so, will lenders become less selective in their acquisitions? Would the government be well-advised to drop the interest rate back to 4¼; or to liberalize the terms as may be authorized in the new legislation? Could it successfully both lower the rate and liberalize terms?

It is in answering such questions as these that mortgage lenders and government will be making their practical interpretations of their economic forecasts. For what they are worth, these are my answers: I think that a 4½% interest rate will in a matter of weeks be a par rate for FHA and VA loans in most of the country; and that, where par is not offered, the rate will still be a workable one in that the prevailing discounts will be well within the range of allowable charges. As competition makes the 4½% rate more broadly acceptable, lenders are certain to become less selective, although I suspect there will be lingering reluctance to take minimum down payments and to go for maturities as long as 30 years.

If FHA and VA mortgages begin to sell at a premium over a considerable area—as seems possible by late summer—the agencies will be faced with pressure to drop the rate back to 4¼%. At the same time there will be pressure for instituting more liberal terms. I am certain that it will not be possible to yield to both pressures, since to do so successfully would require the existence of a much greater supply of mortgage funds than conceivably will be available.

By summer, it is probable that the supply of funds will be great enough and competition among lenders strong enough so that lenders can be induced to lend—at 4½%—on more generous terms than are now generally offered. That is simply another way of saying that lenders are likely to become less selective as competition stiffens. But it is not likely that a 4¼% rate, under any conditions that seem now probable, would be offered for FHA and VA mortgages except on a selective basis, such as now is customary, as to down payment, maturity and location.

The next several months will be crucial months—first, because they will reveal the nature of the economic movements I have tried to analyze here; and second, because they will see decisions made by both private and public agencies that will either help or hinder recovery to a more assured level of activity. During these months, it will be advisable to make many more analyses of the influences I have talked about and of others that may come to light, and to review our forecasts and if necessary to modify our decisions. Such an exercise is bound to breed alertness and maintain flexibility, and, in a time like this, these are qualities that are vital to self-preservation and advancement.

Pasadena Bond Club To Hold Annual Outing

PASADENA, Calif.—The Pasadena Bond Club will hold its annual outing and golf tournament on April 30, May 1 and 2 at the Thunderbird Country Club, Palm Springs, Calif. Marvin Kuppinger, Lester, Ryons & Co., is Chairman of the outing committee. William H. Stitt, Crowell, Weedon & Co., is President of the organization.

D. I. Cochrane Opens

SHAWNEE, Okla. — Don I. Cochrane is engaging in a securities business under the firm name of Don I. Cochrane Company, from offices at 15 West Ninth Street.

Forms A. G. Hageman Co.

PEORIA, Ill.—Arthur G. Hageman has formed Arthur G. Hageman & Co. with offices in the Central National Bank Building to engage in the securities business.

Wilcox Co. to Admit

John A. Mann on May 6 will acquire a membership in the New York Stock Exchange and on the same date will be admitted to partnership in the Exchange firm of Wilcox & Co., 14 Wall Street, New York City.

Waddell & Reed Branches

KANSAS CITY, Mo.—Waddell & Reed, Inc., have opended branch offices in the National Reserve Bank Building, Topeka, Kans; United Building, Salina, Kans; and City National Bank Building, Omaha, Neb.

Organized Labor and Cost Reduction

By JAMES B. CAREY*
Secretary-Treasurer, Congress of Industrial Organizations
President, Int'l Union of Electrical, Radio & Machine Workers

CIO spokesman discusses mass production methods and workers' attitude toward displacement by automatic machinery. Says during 1953 workers produced efficiently, only to find they had worked themselves out of jobs "simply to provide higher profits." Stresses value of expanding markets, which, he holds, can be done by higher wages and greater consumer buying power. Deplores removal of factories to locations of cheaper labor, as well as "chiseling" the workers to get cost reduction. Urges guaranteed annual wage.

The question of "Organized Labor and Cost Reduction," is one that many people would think that we of labor would run away from. That's because of the myths that have been created and tenaciously spread that organized labor opposes cost reductions, that we oppose technological progress, that we want to rest upon some elusive "featherbedding." I can only speak for the CIO; the AFL can properly make its own effective replies. But let me say that these stories are myths to edify the people who still believe in fairy tales. In the fairy tale, you know, there has to be the ugly ogre who menaces the beautiful princess or who eats up the handsome hero. So in the press, in many well stocked clubs, in the Pullman smoker over a cocktail, the talk naturally turns to the fairy tale—the horrible things that organized labor is doing in this field.

James B. Carey

But if you listen carefully to these conversations, you will generally find that they amount to what the lawyers refer to as "indirect testimony." It's always something like, "You know, a friend of mine, a president of a big company, said that his union wants to go back to the horse and buggy age and kick out all machinery from the plant . . ."

Now if you could find that mythical president he would assure you that it was not his company he was referring to, but he heard it himself at a dinner party at the Union League Club in his city and that it was some fellow from Seattle who was complaining.

Let's look at it sensibly. After all, why should we oppose cost reduction as a principle? We understand the facts of life in this mass production society. We know that if goods can be made cheaper there is greater opportunity to provide these goods to consumers more cheaply, thereby improving their standard of living, and creating more customers and, therefore, more jobs. Everyone could benefit.

Mass Production and the Workers

As a matter of fact, I believe that we understand the operations of our mass production society much better than do many spokesmen for our industrial society. In fact, organized labor may act as though it is naive on this question—believing that surely industrial management must understand how its own society operates and that it won't repeat the terrible past blunders. For we think it is elementary that the social and economic development of our industrial society must go hand in hand with the technological development. If tensions develop between the technology and the social and economic aspects, then we have a convulsion and we are suffering from such a convulsion today.

So while we accept cost reduction as a necessary and good principle, we maintain that if it is not carried out properly and the benefits distributed wisely it can create serious difficulties for our society.

Remember that cost reduction does not mean price reduction, nor does it necessarily benefit other sections of our society. The reason is one that every business man knows even if he does not practice it—the tendency to seek a monopoly to keep prices up even though costs go down and, therefore, to make an extra profit on the basis of cost reduction. And this leads to what are called under the law "conspiracies in restraint of trade"—combinations to artificially keep prices up. I think the lamp industry is a conspicuous instance among many in my own industry illustrating what can be done to manipulate the price of a necessity of life.

Let us take, for example, one of the most important developments of our 20th Century technology—the introduction of the automatic factory. Now we of organized labor have watched factory process after process being invaded by these mechanical men of electronics to displace the human worker who had tended machines or operated assembly lines. We have seen and no doubt will see more developments in this field that will stagger the imagination—if we have that capacity still left in us.

We will see automatic assembly, automatic machine tooling, automatic inspection, automatic loading and unloading. Whereas the substitution of a machine for a man might have tripled or quadrupled production, these automatic devices could multiply per-man-production by 50 or 100 times.

Now what should our attitude be toward this? If we were back in the early days of the textile industry when looms first began to displace men, we might, in fear and terror of insecurity, have revolted against the machines.

What will happen if 25% to 50% of the workers in a plant are displaced by automatic tools? What is the responsibility of management and labor in such a situation? I believe that our attitude should be to welcome these developments but to insist that the benefits be distributed equitably among the workers, the owners and the public. Unless this is done, if greed and selfishness rule, the owners might make a very greatly increased profit, but it would be at the expense of everybody else. Our whole society would have to pay for it in terrible dislocations and suffering.

Displacement of Labor Not a Simple Question

So you see it is not simply a question of confronting labor and inquiring: "Are you for cost reduction or not?"

We want to see from industry more scrupulous examination of this problem of improved technology and especially of the automatic factory. We want to know what management proposes to do to handle this development which, in its way, is just as explosive as the atomic bomb.

Fortunately, some new managers view these problems with a social vision, and know that all sections of our society must share widely in the benefits of cost reduction if we are to avoid disaster.

The same problem goes to our concern about the guaranteed annual wage. Twice now in a period of five years we have witnessed unemployment mounting to four or five million. This unemployment has come about only because workers and machinery were so efficient that they produced more goods than people had money to purchase. Again we are told that the present difficulty, as in 1949-50, is just "excessive inventories." But that is just another way of saying "unsold goods." Would people have liked to buy these goods? Certainly. There is a market for everything our society can turn out. There are plenty of customers but not enough money in their pockets.

Workers Working Themselves Out of Jobs

I say frankly that what happened in 1953 is not calculated to inspire labor with great confidence in the managers of our industrial society. For during that year of 1953, workers produced efficiently, working six days a week in many plants, only to find that they had worked themselves out of jobs.

What would you as an individual manager or business man do if you felt that if you worked harder and more efficiently you would be working yourself out of a job and an income?

So after our experience of high production, high sales and high profits in 1953 turning into lines of unemployed in 1954, we want some more protection. Especially do we want it if we are to cooperate fully in cost reduction drives. The guaranteed annual wage is one important tool that can be used to remove that gnawing insecurity and give the worker confidence as he goes about his daily work.

The determined resistance, by many management groups, against the guaranteed annual wage, while they obstinately refuse to propose any other means of providing security, creates not only doubt but also bitterness in the minds of the workers. For they have the same need to eat every day in the year, wear clothes every day, pay the rent every month, yes, and pay the installment collector every month, as you in this room do. Wage earners see no reason why they should work themselves out of jobs simply to provide higher profits. They know that when joblessness comes to the workers, management continues to draw its income just the same.

In our opinion, the adoption of the guaranteed annual wage would give confidence not only to workers to produce, but to businessmen to operate at a high level. For the guaranteed annual wage can mean a guaranteed market.

Action on this front would be a demonstration that management intends seriously to answer the challenge implicit in this question of cost reduction. And if there is something you object to in the guaranteed annual wage, then propose something else. I think that you of management are squarely on the spot to come out with some answers to these problems of the free enterprise that you demand.

After all, what is the big problem of cost reduction today? It is no longer a question of not being able to secure machinery or gadgets to increase production and efficiency. No doubt everyone in this room could either buy or have designed for him better and more efficient gadgets. The problem in your mind is one of economics. You ask yourself whether you can get enough customers or enough new customers to pay for that machinery. You want to know if you can get enough hours of operation out of the machine per day or per month to pay for the heavy fixed charges that it entails.

High Wages and Consumption

Well, if you are making a useful product that the public wants, what is the obstacle? It is what you call the "market" — that statistic on how many people will probably buy your product.

I wonder how many of you have calculated how many new customers would buy your product if the 37% of the people who earn $3,000 or less per year were raised $1,000 in their income?

This would increase national personal income by $15 billion a year. Studies by the Federal Reserve Board on consumer spending show clearly that as income rises in these lower and middle brackets, especially under $5,000 a year, spending increases almost as fast. Furthermore, the increased market from these 15,000,000 families would grow tremendously and spread its effect to all sections.

The sales of radios, TV, cars, houses, clothing, amusement, travel, education and services are capable of a tremendous expansion. Here is the big field for the increase in your market, a steady increase in your market. All that is needed is wise and broad social policies by management, government and labor to make this a reality.

In our opinion, in this field of a tremendously expanded market, with growing assured income by the masses of consumers, lies the open sesame for making possible large cost reduction.

As a matter of fact, these things are not only desirable but they are actually a must. According to the National Planning Association—an independent organization made up of prominent industrial, labor and public leaders—in order to maintain full employment we must increase consumer spending from the $230 billion in 1953 to $300 billion in 1960. This is a staggering increase of $70 billion in seven years, but it is what is imposed upon us by the very laws of this mid-20th Century industrial society we have created.

I think that it is wonderful that the laws of our society do make such demands upon us—that we improve greatly our standard of living in order to have social stability. But I am afraid that too many managers still are unwilling to face the necessities of this new life. The question is posed to us, "Are you willing to support cost reduction?" We answer and pose another more important question to management, "Are you willing to support the conclusions that flow from cost reduction?"

I am sure that if 10 years ago it had been suggested that the wages of workers would rise to the point where they are today, many managers would have thought the prediction crazy. Yet we have made this great progress, and I admit it is great. But in fact, it has not been great enough, as the unsold goods and long lines of unemployed attest.

Moving Factories

Let me deal with another important aspect of this cost reduction problem. After all, there are many ways to try to reduce costs. One way is to try to find a new location for the factory where there are unorganized workers, perhaps in a rural area, or somewhere else where workers can be induced to work for much lower wages and for fewer holidays, reduced vacations, pensions or other social benefits.

Right here in Philadelphia are concerns under contract to the IUE-CIO which have engaged in this "runaway" operation—running away from Philadelphia and leaving hundreds of workers jobless, simply to find a place where the so-called cost reduction will come from exploited low paid labor.

In the case of one prominent company in our field, the working force has been reduced by half, and the company is unwilling today to give us any assurance that it will remain in Philadelphia more than four more years. You all know the serious problem this community faces in the announced determination of Westinghouse to move out of Philadelphia several thousand jobs from its jet engine division in order to locate in another area with lower wage rates. Another concern said frankly it wanted to move south to obtain a better "competitive position."

Westinghouse and GE have been conspicuous offenders in this field, moving some operations to get a reduction in wage rates of 50 cents to 70 cents-an-hour, even though the goods — like lamps or motors—are sold in a national market at the same price.

Now what should we of organized labor do about this? Should we say, "All right, we will give up part of the standard of living here in Philadelphia, cut it down to the scale of some town in Georgia or Mississippi in order to cut costs to that competitive level."

Even if we agreed to such a silly proposal, it would not stop there. Some imaginative businessmen would always find some new place where wages were still cheaper. And remember that this new depreciation policy voted on by the House of Representatives, glittering as it looks on the surface, is an invitation for greedy employers to junk their present plants, move to new low wage sites and have the government virtually pay the costs of those runaway operations.

Philadelphia could become a ghost city like some New England areas by that kind of reckless policy.

We of organized labor take this position: We do not object to the industrialization of the South and improving the standard of living of its people through placing part of new production in that area. We want that. But we do object to runaway operations motivated by greed and selfishness. Therefore, on that phase of cost reduction we say two things: First, we will organize these new runaway plants wherever they may move. And secondly, we will bring up their wages and conditions of work to a decent level. In doing that we are the friend and ally of every decent employer in this community, in fact, of the entire community.

Cost Reductions and Labor Relations

Let's talk now about the relationship between cost reductions and labor relations.

Obviously, they have a direct bearing on each other. To the extent that cooperation by labor is important, that cooperation will depend upon the character of industrial relations in the plant.

I know, for example, of plants where the management feels that its road to cost reduction is to chisel on the workers, on the theory that that's the easiest way to save money. So in attempting to nibble away at the workers' rights and standards, the employer encounters union resistance. Grievances occur, and naturally, management finds that it must refuse to settle these ami-

*An address by Mr. Carey at the 7th Annual Production Conference of the Chamber of Commerce of Greater Philadelphia, Philadelphia, Pa. April 6, 1954.

cably, or indulge in long delays. Every dispute becomes magnified into a test of strength. The result is suspicion, bitterness, lowered morale throughout the entire organization and—in the end—a refusal to cooperate in management plans. Strikes break out—and you know the effect of strikes on costs.

On the other hand, there are plenty of plants, thank heavens, where management realizes that teamwork between itself and the union is the only sound road to cost reduction. It knows that justice must be the underlying principle. It issues orders to supervisors that lead to the reduction of grievances. It creates an atmosphere in which confidence in management and its purposes grows, and labor cheerfully cooperates on all sound programs and projects for the benefit of all.

I can think of one plant in particular where a good situation turned sour. The management had been quite progressive and had, in fact, installed profit sharing plans and had the confidence of the workers. Because of the Korean war, sales and profits grew tremendously. New capital entered the firm; management became greedy for these profits and started chiseling on the workers. Gradually a new atmosphere, dark with suspicion, resulted. The old spirit disappeared, grievances mushroomed, the whole plant smoldered with resentment. This firm, as a result, instead of benefiting, lost some of its orders and instead of getting lowered costs and higher profits, will get the opposite result.

We have had a number of situations, for example, in which management complained of low productivity and demanded that worker output rise. This was the first mistake—the assumption that low productivity meant that workers were not doing their job. In any event, when these demands came to us and a serious conflict was likely, we suggested that a team of management and union representatives go into the plant into various departments to see what was actually wrong and see if they could find the answers. In the cases of which I have direct knowledge, management refused this offer of cooperation. On what grounds? Well, although it was unspoken the impression given was that management felt we wanted to take over its prerogatives — that there was some hobgoblin of socialism involved. Therefore, it tried to insist unilaterally upon a speedup as an answer to its problem. And, naturally, we rejected that.

Management Must Cooperate With Workers

What this suggests is that management must lose its fear that unions want to run their plants. It must, however, be willing to cooperate if it wants cooperation and be ready to realize that in many cases inadequate productivity results from poor supervision, faulty flow of materials, antiquated equipment, and yes, poor management policies. And simply because the worker is at the bottom of that pyramid of industrial authority, it is not possible, in our view, to simply pass the responsibility on down to him.

The index of the number of grievances submitted by a union is often an index of the situation within the plant. Now I am not suggesting any punitive action against individuals or groups, but it recalls to my mind a story about that wise queen, Catherine the Great, of Russia. One day a high official came to her excitedly and said that the peasants in a certain province were in revolt and the governor wanted permission to hang the ringleaders.

Catherine asked if that wasn't the same province where an outbreak had taken place several years before. She was told that it was.

She pondered a minute. "I refuse you permission to hang the peasants," she said finally, "but you have permission to hang the governor."

There must be a recognition by management that just as we are on the threshold of immense new technological developments, so we are on the threshold of an immensely improved standard of living and leisure that must come to everyone, if we are to go forward.

It might well be that 10 years from now, the average wage of a factory worker will be $6,000-a-year and he would work only 30 hours-a-week. How many industrialists would cry out that that would bankrupt our economy. I remember the manager of one large company who said sorrowfully in negotiations with us, "These demands of labor must cease. Every year it's something new."

But he was wrong. The demands must go on, the improvements in standards of living and leisure must go on. Otherwise management will find that although it has the most perfect and efficient machines in the world, those machines are poor substitutes for customers. All they will consume is some electricity, some electronic tubes and some oil. But that would not take care of the mountains of goods which will flow from our factories.

What we suggest, therefore, is that this problem of cost reduction by management be tackled not as an end in itself but as a means to an end in which our whole society will share. The cooperation should be offered to all to share in achieving sound cost reductions and achieving the benefits.

Instead of complaining how terrible things are in terms of costs and taxes, management should stimulate the vision of the great future that is open to all of us through cooperation.

J. C. Smith Opens

OKLAHOMA CITY, Okla. — J. C. Smith is engaging in the securities business from offices in the Liberty Bank Building.

H. W. Faath Jr. With Braun, Bosworth Co.

Braun, Bosworth & Co. Incorporated, announced that Harry W. Faath, Jr., has become associated with them in their New York office, 1 Wall Street.

Mr. Faath started his career in Wall Street in 1946. More recently he has been associated with Aubrey G. Lanston & Co. in their municipal bond department.

From 1942 to 1946, Mr Faath served as an aviator in the Marine Corps and was recalled to active duty serving from November, 1951, to November, 1953, at which time he was returned to inactive duty with the rank of Major.

Delinquencies Low in Face of Rising Borrowing

By THEODORE H. SILBERT*

President, Standard Factors Corporation, New York

Finance company executive, in discussing outlook for collections in 1954, finds present delinquencies and losses on instalment payments "remarkably low." Asserts, currently, 98% of all instalment debt is paid promptly, and forecasts a much lower decrease in consumer spending than in industrial activity. Looks for maintenance of retail sales volume.

In discussing the outlook for collections in 1954, I would like to take one statement as the text of my sermon. The statement appears in a recent report of a bank in Chicago. The statement is this: "There appears to have been little increase in delinquencies in the face of the rise in borrowing during the past year. Banks reporting monthly to the American Bankers Association indicate that delinquencies of 30 days or more at the end of December, 1953, were only slightly higher than in early 1952, and fully a third lower than at the beginning of 1950."


Theodore H. Silbert

Despite the gloomy predictions we have heard, it now appears that delinquences on instalment collections in 1953 were only "slightly higher" than in 1952. And fully a third lower than at the beginning of 1950!

Present-day delinquences and losses on instalment payments, are remarkedly low. This may be gleaned from another source. General Motors Acceptance Corporation recently sold several hundreds of millions of dollars of debentures. In the prospectus which accompanied the offering, GMAC revealed that in its 30 years of business, its average loss was 8/100th of one per cent. Its greatest loss—in 1930—was one-half of one per cent.

Here from two sources we find the same conclusion. What is that conclusion? Simply this: the American consumer is such a good customer, is so careful of his credit rating, and is so desirous of paying his debts—that loss ratios on instalment debts run less than 1%.

"Life" magazine recently published what purported to be an entertaining article. That article dealt with the trials and tribulations of a bill collector. The bill collector was supposed to be a common sight in our cities. How untrue this is!

Currently 98% of all instalment debt is paid off exactly as promised. Only 2% is delinquent 90 days or more. Of that 2%, at least 1% pays off its debt after the family illness or other difficulties are overcome. That leaves a 1% possible loss. I would like to find another industry or any other phase of business life which shows as good and as clean a record as this. The American consumer is anxious to meet his promises on payments. Whenever there is the slightest threat of unemployment, many customers rush in and pay off their instalment debt ahead of time.

All sorts of people have denounced instalment debt as immoral, licentious and conducive to degeneration of character. Critics have been telling us for some time that instalment debt is too high. Is it?

Increase in Consumer Disposable Income

Consumer disposable income, which is the money people have left after they have paid their taxes, has increased over the years. In 1940, consumer disposable income was $75.7 billion. In 1953, it was $249 billion. That is an increase of 3.3 times. At the same time, instalment credit went from $5.5 billion in 1940 to $22 billion in 1953. The increase here is only slightly larger than the increase in disposable income. But with the growth of population and the postwar establishment of new families, we scarcely have any greater proportion of instalment buying today than in 1940. All of which indicates that people do not rush into instalment buying carelessly.

As a matter of fact, we have heard a good deal recently about the unpredictability of the consumer. Will he or won't he continue to buy? I would like to suggest to you that the consumer is not erratic, and that it is possible to forecast the volume of consumer spending.

For a number of years prior to 1940, American consumers came close to spending more than they had in personal disposable income. But around 1940, we find that consumers began to have such large increases in personal income that a large share of it flowed into savings. That is, instead of most of it going into spending, only about 85 to 90% went into spending. In no year prior to 1940 is this true. Even in our best years prior to 1940, no more than 5% went into savings.

More precisely, we find that for the period 1929-1940, for every 10% increase in personal income, there was an 8½% increase in spending. The difference went into savings of one sort or another.

Since the end of World War II, it has been interesting to notice that the same trend is maintained. While savings increased, we still find that for every 10% increase in personal income, there is still an 8½% increase in spending. The difference goes into personal savings.

The American consumer is not profligate. On the average, he does not spend all he earns. He saves regularly, as the growth of time deposits in banks and building and loan associations will attest.

On the down-side, the American consumer does not contract his purchases at the first sign of a cloud on the horizon. During the adjustment period in 1948-49, which was very much like the adjustment period we are passing through now, industrial activity decreased. But while industrial activity decreased by 10.5% from 1948 to 1949, disposable personal income was reduced by only 1.7%. And personal consumption expenditures increased from $177.9 billion in 1948 to $180.6 billion in 1949. In short, the ordinary adjustment does not seem to worry the consumer. Such seems to be the case today.

Department stores, however, have not continued to get their normal share of the consumer's dollars. Where have the department stores fallen behind in attracting business? While charge account business has increased from $1,414 million outstanding in 1939 to $3,250 million in 1953—that is **not** a noteworthy record. In 1939, charge account business was 52% of all non-instalment credit used by the American consumer. In 1953, charge account business was only 46% of all non-instalment credit used. In short, other business enterprises have forged ahead at the expense of department stores. If the charge account business had been maintained at the 1939 proportion, department stores would have about 10% greater charge account volume today than they do have.

On the other hand, department store instalment sales have shown a better trend. Some of the department stores have not been daunted by the fall-off in charge account business. They have gone in heavily for instalment sales. In 1939, for example, department stores had $354 million outstanding in instalment credit. That was 24.6% of all instalment credit held by retail outlets. In 1953, department stores had slightly over $1 billion outstanding in instalment credit—which was 32% of all instalment credit held by retail outlets. In short, while charge accounts declined in proportion to the rest of non-instalment credit, department store instalment credit boomed. Why?

This requires a roundabout explanation. Standard Factors Corporation has nine department stores as clients in different parts of the country. These stores factor their instalment and charge account business. That is to say, at the beginning of the month they notify Standard Factors just how much they are billing in charge account business that month. Standard Factors then advances 80% of the face value of the charge account, so that the store has the cash immediately to carry on its business.

On instalment accounts, the paper signed by the consumer is turned over by the department store to Standard Factors, and about 80% of the face value is made immediately available in cash to the department store.

In both cases, the store continues to deal directly with the customer. Nothing is disturbed in its customer relations. The customer traffic is still maintained by people coming into the store to pay their charge accounts and instalment payments.

In these stores using retail factoring, both charge account and instalment account business have boomed far above the national averages, mainly because immediate cash is made available against both. The store's working capital is not depressed by such credit sales. Since this is the case, these stores can promote charge account and instalment credit as much as they like, thereby increasing their overall volume.

Why Instalment Credit Grows

Let us return now to the question why charge accounts have declined nationally in proportion to the rest of non-instalment credit, and why instalment accounts have boomed. We can answer that question on the basis of our studies in these nine stores in which we do retail factoring.

Over the past 10 years or so, there has been a slow but certain shift in the distribution of income. The upper-income groups which used to get a larger share of the national income, and who use charge accounts, are getting a smaller share of the national income today. In part, this is due to the tax situation. In part, this is also due to the fact that more members of the lower-income family hold jobs. In part, this is also due to an increasing proportion of older people in the population—many of them drawing social security benefits.

By and large, the people who use charge accounts are decreasing in numbers proportionately. By the same token, the people who use instalment credit are increasing in proportion. The result is that those stores which have made a point of promoting instalment credit, have come out better at the end of the year than have the other stores which have been satisfied to rest on their charge account business. The stores which have pushed BOTH charge account and instalment credit — mainly because they use retail factoring to relieve any pinch on working capital—have come out best of all, both in volume gain and in net earnings at the end of the year.

While it is possible that there may be some slow-up in collections both on charge accounts and instalment accounts in 1954, I do not anticipate anything serious. As I have pointed out, since 1929 we have noticed that for every 10% increase in personal income, there has been an 8½% increase in spending. The difference went into savings, which are today the highest on record.

By the same token, a 10% decrease in industrial activity is accompanied by a 1.7% decrease in personal disposable income. In 1948-49, this decrease in personal disposable income did not have much effect on personal expenditures. As a matter of fact, personal expenditures rose from 1948 to 1949.

Our present decrease in industrial activity since last fall is about 10%. There has been some unemployment—but this has been buttressed by unemployment compensation. Collections by department stores on charge accounts and instalment accounts are just barely slower than last year. But department store sales are still as good as last year. Department stores have begun to push promotions which have helped maintain the volume. For those who wish to maintain volume and even increase it, our suggestion is to investigate the mechanism of retail factoring. Retail factoring is primarily geared to expand store volume, and it applies both to charge accounts and instalment sales. Cash sales are no problem as far as affecting working capital. It is only on the credit side that sales can squeeze working capital. Here retail factoring is an important help.

*An address by Mr. Silbert at the 21st Annual Convention of the Credit Management Division of the National Retail Dry Goods Association, Fort Worth, Texas, April 27, 1954.

Industrial Business Firming Up

Business Survey Committee of the National Association of Purchasing Agents reports order and production increases in March and April were higher than decreases.

A composite opinion of purchasing agents who comprise the National Association of Purchasing Agents Business Survey Committee, whose Chairman is Robert C. Swanton, Director of Purchases, Winchester Repeating Arms Company, Division of Olin Industries, Inc., New Haven, Conn., shows that industrial Purchasing Agents, for the second month, report order and production increases higher than decreases and progressing at an accelerated pace. Better order position is reported by 43%, compared to 17% still on the slide, while production is recorded up by 33% against 18% down. Again, the individual changes are not of large proportion, but indicate a firming up of industrial business and gradual improvement through the second quarter. Many report that aggressive selling plans are paying off. More strength in prices is noted, particularly in nonferrous metals, stimulated by the announcement of government stockpiling plans. Inventory correction is still being pressed at about the same rate as recent months. Employment is a little better—more rehiring. Buying policy remains conservative, 60 days or less. Purchasing managers are mildly optimistic for the near future; they look for a steady increase in industrial activity.


Robert C. Swanton

Commodity Prices

Industrial commodity prices for purchased materials continue the show of strength reported in March. Again, the lead is taken by nonferrous metals, influenced more by the government stockpiling announcement than by the supply and demand position of the metals. Except for rubber and tin, the Indo-China war scare seems to have had no effect on prices. Price concessions and protection are being more freely negotiated on fabricated items as stepped-up competition and intensive selling influence their markets.

Inventories

Purchased materials inventories continue to slide off at about the same rate as in March. General availability of materials makes possible better and closer scheduling. While there is no evidence of stocking up on steel now that it is in short procurement range, comments on the possibility of a steel strike are more numerous in April.

Employment

Pay rolls are off again, slightly less than in March. However, 18%, the highest number since last August, report additions and rehiring, while 51% hold the same number of employees as last month. It is interesting to note that a number of the reports mention separation of nonproductive workers to decrease overhead costs. A lot of the frills are being eliminated. Improvement of quality and productivity is also reported.

Buying Policy

Sixty days and under is the buying range of 87% of the committee, for the principal materials purchased. Not much change in the past four months, and that has been on the down side.

Warehouse stocks and MRO items are plentiful. Steel can be obtained on short notice. Getting material is no longer a problem. Careful analysis of the markets is the current policy of most buyers.

George M. Lawler With Lucas Eisen Waeckerle

KANSAS CITY, Mo. — George M. Lawler has become associated with Lucas, Eisen & Waeckerle, Inc., 916 Walnut Street Building, members of the Midwest Stock Exchange, as a sales representative. In the past Mr. Lawler was with the New York and Chicago offices of Dillon, Read & Co. and the Chicago office of the First Boston Corporation, handling bank and institutional accounts. Recently he has been in the automobile business.

Robert W. Tilney

Robert W. Tilney, partner in Carlisle & Jacquelin, and a member of the New York Stock Exchange for many years, passed away at his home at the age of 68.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED
CAPITALIZATIONS

The Board of Directors of **Sterling National Bank & Trust Company of New York** announces through its Chairman, Samuel H. Golding, the election of Mrs. Minnie M. Atkins to the position of Assistant Cashier. Mrs. Atkins is the first woman to be named an officer of the bank.

With many years' experience in banking, Mrs. Atkins joined Sterling's Rego Park, Queens, office in July, 1952.

The increasingly important role that women play in the financial affairs of the family, the home and the business has prompted the Sterling National Bank to promote Mrs. Atkins, and to lend her wide experience to the women of this area.

* * *

Charles B. Honecker has been made Manager of the Long Island City branch of the **Bank of the Manhattan Company, N. Y.**, it was announced on April 27 by Vice-President Lester R. Mahoney. Mr. Honecker succeeds Marshall D. J. Smith who resigned.

Mr. Honecker has been with the Bank of the Manhattan Company since 1929 and has been Assistant Manager of the Jamaica office.

* * *

John J. Sobek, Jr., Assistant Treasurer of **The County Trust Company, White Plains, N. Y.**, completed 25 years of service on April 29. He has been associated with the bank's Fleetwood office for the past year and prior to then served in the principal Mount Vernon office.

* * *

By a stock dividend effective April 13 **The Grove City National Bank, Grove City, Pa.**, increased its common capital stock from $100,000 to $150,000.

* * *

The directors of the **Broad Street Trust Company, Philadelphia, Pa.**, and the **Northwestern National Bank, Philadelphia, Pa.**, have approved a plan for merging the two institutions under the name of the Broad Street Trust Company.

The plan is subject to approval of State and Federal authorities as well as the stockholders of both banks. The plan calls for an exchange of one share of Board Street Trust Company for each share of Northwestern National Bank.

Hubert J. Horan, Jr., President of Broad Street Trust Company, would be President of the merged institution, and James A. Bell, President of Northwestern National Bank, would be Chairman of the Board.

Clair H. White, Vice-President and Cashier of Northwestern National Bank, would become a Vice-President, and all other officers and employes would retain their positions.

* * *

The First National Bank of Germantown, Ohio, with common stock of $50,000, and **The Farmers & Citizens Savings Bank Company, Germantown, Ohio,** with common stock of $35,000 merged as of the close of business April 10, 1954.

The consolidation was effected under the charter and title of "The First National Bank of Germantown."

At the effective date of consolidation the consolidated bank will have capital stock of $100,000, divided into 4,000 shares of common stock of the par value of $25 each; surplus of $150,000; and undivided profits of not less than $51,341.87.

* * *

The **First Fond du Lac National Bank, Fond du Lac, Wis.,** increased its common capital stock effective April 12 from $400,000 to $500,000 by a stock dividend.

* * *

The National Bank of Burlington, Burlington, N. C., with common stock of $150,000, was merged with and into the **Wachovia Bank and Trust Company, Winston-Salem, N. C.,** under the charter and title of the latter bank, effective as of the close of business March 31, 1954.

* * *

Allard A. Calkins, Chairman of the Board and Chief Executive Officer of the **Anglo California National Bank of San Francisco, Calif.,** will retire on April 30 under the bank's retirement plan, it was announced on April 21.

Paul E. Hoover, continuing in the office of President, will be Chief Executive Officer of the bank. The office of Chairman of the Board will be terminated.

Mr. Calkins, though retired from all executive duties, will remain a member of the board of directors and of the Executive Committee.

Mr. Hoover has been associated with Anglo Bank since 1933, when he was appointed a Vice-President after an outstanding career as a national bank examiner and a bank executive in the Middle West. He was elected a Director in 1938 and has been President of the institution since 1951.

Mr. Calkins became a Director of Anglo Bank in 1939, was appointed First Vice-President in 1940, President in 1946 and Chairman in 1951.

Paul B. Kelley will continue in the capacity of First Vice-President and as a member of the board of directors.

* * *

The common capital stock of **The First National Bank of Portland, Ore.,** was increased from $15,000,000 to $20,000,000 by sale of new stock effective April 13.

* * *

The Board of Governors of the Federal Reserve System has admitted as a member the **City National Bank of Anchorage, Anchorage, Alaska,** effective April 15.

Halsey, Stuart Group Offer Equip. Tr. Ctfs.

A syndicate headed by Halsey, Stuart & Co. Inc. on April 23 offered $4,575,000 of Northern Pacific Ry. 2⅝% serial equipment trust certificates, maturing annually May 14, 1955 to 1969, inclusive. The certificates were priced to yield from 1.45% to 2.80%, depending on maturity.

These certificates are to be secured by the following new standard-gauge railroad equipment estimated to cost not less than $5,730,800. 275 40 feet, 50-ton capacity refrigerator cars; 7 lightweight steel passenger cars; 2 lightweight steel de luxe passenger coaches; 2 lightweight steel parlor-lounge passenger cars, and 4 diesel-electric road-switching locomotives.

Other members of the offering group include: R. W. Pressprich & Co.; L. F. Rothschild & Co.; Freeman & Co.; Wm. E. Pollock & Co., Inc.; Gregory & Son, Inc.; McMaster Hutchinson & Co.

A Brief for Lower Capital Gains Tax

By THOMAS B. MEEK*

Francis I. du Pont & Co., Members New York Stock Exchange
Chairman, Tax Committee
National Association of Investors' Brokers

Spokesman for investors' brokers maintains not only would more equity capital be provided for plants and jobs, but also the Treasury would gain more revenue if the tax on capital gains were reduced to 12½% and the holding period shortened from 6 months to 3 months.

The National Association of Investors' Brokers is convinced that the Treasury would gain more revenues, and more equity capital would be provided for plants and jobs, if the Congress will reduce the capital gains rate of tax and length of holding period.

Thomas B. Meek

Our conviction is based on actual experience, not theory. Our Association is representative of securities firm employees who have been servicing hundreds of thousands of accounts over a long period of years. We have observed how the tax laws affect investors and prospective investors, in other words, what they actually do with their money. We have urged revision of these sections of the tax law because we have found them the greatest handicap to judicious investment.

Why Revenues Would Be Increased

Why do we feel revenues would be increased by reducing this tax and shortening the holding period?

First — Countless transactions never take place. Either a short-term profit is missed, because the investor wishes to hold his security to get the tax advantage after six months, or, if he has a sizable long-term profit he regards it as part of his capital assets and will not pay the present rate of tax on the profit. Our analysis of transactions in 1953 indicates that the government would have collected $200,000,000 additional if the tax had been 12½% and the holding period three months. We estimate revenues from capital gains in 1953 to be lower than in 1952.

Second — There are large amounts of capital that will not be available for equities until there are changes made in the capital gains provisions. The writer knows of several millions of dollars among his own clients that are "locked up" for this reason. This can be multiplied many times.

The members of Congress are properly concerned about the state of business in this country and are well aware that two of the chief bulwarks to our economy, over the short-term, are: Government expenditures for defense, and business expenditures for expansion and rehabilitation. How are these private expenditures for capital goods to be maintained? It is well known that a large proportion of the vast sums spent since the war have come out of retained earnings and borrowings. Obviously this trend is unhealthy and cannot be maintained. The only answer, therefore, is increased financing through equities, and that calls for vigorous and healthy securities markets. That can be achieved by permitting capital to flow more freely. As we have said before, the capital gains tax deters proper reinvestment and discourages new money from buying equities.

Reduction of Tax Would Not Stimulate Speculation

It has been assumed in some quarters that speculation would be stimulated by reducing the capital gains tax and holding period. Actually these provisions have served at present and in the past to contribute to the speculative urge. The effect of these restrictions on taking profits has been to limit the supply of stocks when the market is going up and to increase the supply when the market is going down. Thus, price swings are accentuated in both directions. This is one of the factors in the sharp rise in certain stocks in the market this year. Early in 1946 our Association warned that the 100% margins and the capital gains tax prevented many holders from selling, thereby helping accelerate the rise. We also warned of the thin markets that would develop when the trend was reversed, because there would be no buying cushion furnished by those who had taken profits.

It is the basic function of the securities business to produce capital, just as it is of the oil and mining industries to produce oil and metals from the ground. It is an anomaly that the securities industry suffers many restrictions on capital formation, whereas many other "extractive industries" have been granted tax incentives. Our members have, during the past 20 years, seen a steady deterioration in the supply of equity capital and I venture to predict that if the tax laws are not changed soon, there will come a time when the government will be forced to offer extra inducements to capital to sustain domestic enterprise, just as inducements are being offered now to encourage investment abroad.

With proper encouragement there is plenty of capital in this country ready and willing to engage in constructive enterprise. We have had confirmation of this in the action of the securities markets this year. The proposal to grant minor tax credits on dividend income has stimulated a large amount of new investment. To cite one small example, the writer received an order to buy 200 shares of American Telephone from a man who had heretofore been concentrating his investments in tax exempt bonds. There are many instances of this. If this tax credit is not retained in the final tax bill there will undoubtedly be some selling by disappointed holders.

Canada Has No Capital Gains Tax

The tremendous expansion taking place in Canada has been financed largely through equities. One of the principal reasons is that Canada gives favorable treatment to those receiving dividends and there is no capital gains tax.

In view of the many advantages to be gained by modifying the capital gains tax and holding period, it is difficult to understand why there is such great reluctance to make these changes. The obvious conclusion is that there are political implications in doing anything "to help capital." Perhaps if the name were changed to "restrictive enterprise tax" there would be a better chance of modifying it. It is ironic that such an attitude exists in the leading capitalistic country in the world. Actually, the capital gains tax does not reach the "rich," except in small measure, for they either hold their investments or are in tax exempts or cash. The capital gains tax and dividend tax hurt the little fellow as well as the big ones. There are 6,500,000 stockholders of public corporations in this country and only a small percent would be considered wealthy. 74% of those reporting capital gains and 78% of those reporting dividend income, had incomes of less than $10,000 in 1950. It is our belief that one way to insure that the "rich" pay more capital gains taxes would be to cut the rate in half.

We sincerely appreciate your consideration and express the hope that your Committee recommend to the Congress—

Reduction of the rate of tax to 12½%.

Shortening the holding period to 3 months.

Retention of tax credits on dividends.

*A statement submitted by Mr. Meek to the Senate Finance Committee, Washington, D. C., April 20, 1954.

Tel. Bond & Share Offer Underwritten

Telephone Bond and Share Co. is offering to common stockholders of record April 27, 1954 the right to subscribe for 324,089 additional shares of common stock on the basis of one share for each two shares of common stock held. The stock is priced at $15 per share. The rights to subscribe expire at 2:30 P. M. (CDT) Central Daylight Savings Time, on May 11, 1954. The offering is being underwritten by a group headed jointly by Lazard Freres & Co.; White, Weld & Co.; and W. C. Pitfield & Co., Inc.

Proceeds from the sale of the shares will be used principally for financing Telephone Bond and Share Company's telephone operating subsidiaries and for other corporate purposes. The subsidiaries are engaged in major construction programs in order to meet the demands for telephone service in the areas served.

Telephone Bond and Share Co. is an investment company controlling 19 telephone operating subsidiaries which operate in 17 states and comprise the second largest independent telephone operating system in the United States. The subsidiaries serve areas in Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Carolina, Ohio, Oklahoma, South Carolina, Tennessee, Texas and Wisconsin.

Consolidated operating revenues during the year ended Dec. 31, 1953 totaled $32,307,783. Net income amounted to $1,662,563, equal after preferred dividends to $2.07 a share on the common stock outstanding at the end of the year. A dividend of 25 cents per common share was paid on March 15, 1954 and the company has indicated, based on business and economic conditions, that it intends to follow a policy of paying quarterly dividends of 25 cents a share.

Los Angeles Bond Club Special Meeting

LOS ANGELES, Calif. — There will be a special meeting of The Bond Club of Los Angeles saluting **Invest in America Week** at the Biltmore Hotel, today, Thursday, April 29. Mr. Rilea W. Doe, Vice-President of Safeway Stores, Inc., is to be the feature speaker and will address the club on the subject "Three Little Adages and How They Grew." Special guests include Mr. Reese H. Taylor, President, Union Oil Company of California and Chairman, Southern California "Invest in America Week," and Charles Detoy, President, Los Angeles Chamber of Commerce.

The Tax Revision Bill Must Be Passed

By WILLIAM JACKMAN*
President of the Investors League, Inc.

Mr. Jackman maintains double taxation of dividends has impaired investment incentives and restricted raising of needed corporate capital; and that relief therefrom would importantly encourage savings and investment. Rebutting contention that such tax reform constitutes a "Rich Man's Bill," he points out the relief becomes progressively less as dividend level rises.

Since I have but a limited time allotted to me, I will confine my remarks to those sections of the Bill which are of immediate concern to investors, namely, the sections dealing with dividend income (Sections 34 and 116).


William Jackman

In my opinion, the House Ways and Means Committee warrants the thanks of every American taxpayer for the job it has done in overhauling and simplifying the Internal Revenue Code. H. R. 8300 represents a milestone in Federal tax legislation.

Among the many changes proposed in H. R. 8300, one alone will prove to be of immense importance to our present economic situation. I am speaking, of course, of the long overdue recognition of the inequity and evils inherent in taxing dividends twice, first at the corporate level, and again when the income is distributed to stockholders. Double taxation of dividends is the last remaining vestige of the discredited and short-lived undistributed corporate profits tax experiment of 1936.

The House Ways and Means Committee recognized the vital need for this change when, in the report on H. R. 8300, the majority of the Committee stated that the dividend provisions were necessary because double taxation had "contributed to the impairment of investment incentives" and "restricted the ability of companies to raise adequate capital."

Equity Capital Vital

The importance of equity capital to the soundness of our economy is well known, as is the fact that economic progress demands heavy expenditures for new plants, new equipment, and modernization. Equity capital plays a vital part in this investment picture. The funds to finance this economic necessity must come directly or indirectly from individuals willing to risk their savings in productive enterprise. If this building process is to continue rapidly enough to meet our needs, then the government must maintain an economic climate conducive to the free flow of investment funds. The fact that it takes well over $10,000 in capital investments to provide a new job in our industrial system must not be overlooked. The dividend proposals are designed to encourage equity investment. Thus, the enactment of the provisions relating to the taxation of dividend income can be of immeasurable help, particularly under present-day conditions. We are at the economic crossroads. The whole functioning of our great economic machine is of serious concern to every right-thinking American.

*Statement by Mr. Jackman on behalf of the Investors' League, Inc., on H. R. 8300 before the Senate Finance Committee, Washington, April 21, 1954.

President Eisenhower, in his recent radio talk on taxes, ably expressed the importance of dividend tax relief in the overall picture, when he stated "This will be important to all of us, whether our savings are large or small. It will encourage Americans to invest in their country's future. The more we encourage savings and investment, the more prosperous will be the 160 million American citizens."

Again, in the words of the House Committee, "The changes affecting depreciation and the double taxation of dividends are the two most important changes made to reduce tax barriers to production and employment and are, in fact, necessary to maintain as well as increase the revenue base."

Relief From Unsound Financing

If the present inequities are allowed to remain in our tax laws, I feel certain that unsound and inadequate corporation financing would be accentuated. Already the inability of corporations to obtain equity funds has resulted in an unhealthy reliance on mortgaged futures — debt financing. Witness the post-war period when corporate debt doubled — rising from $100 to $190 billion from 1946 to the end of 1953. I am not so much concerned with the level of the debt as I am with the danger of a capital structure top-heavy with debt. I believe that H. R. 8300 provides the incentives necessary to build the base. And the cost is negligible.

I understand that official Treasury estimates place the loss of revenue from the dividend proposals at $240 million in 1954, about $600 million in 1956, and somewhat over $800 million in subsequent years. This loss, I believe, will be only temporary. To quote the House Committee again, "Several of the changes which appear to involve permanent income losses will stimulate production and national income and thereby expand the tax base, both immediately and in the long run. An effect of the dividend exclusion and credit, for example, will be to shift corporate financing away from debt issues toward equity issues. Eventually this will more than offset the loss presently anticipated from the new dividend provisions."

I therefore respectfully urge that the Committee approve these provisions.

Most of the criticism leveled against dividend tax relief can be centered around the theme of a "Rich Man's Bill." Nothing could be further from the truth. The expression is nothing but sheer political demagoguery.

According to Treasury statistics, nearly 80% of the taxpayers reporting dividends are members of families earning under $10,000 a year, while almost half of all dividend recipients earn less than $5,000. If you want further proof, I need only refer you to the recent study made by the U. S. Steel Corporation of its nearly 300,000 stockholders. More than half of these get less than $5,000 a year, with one-third having incomes of less than $3,000. Only 10% of its shareowners have over $25,000. In 1953 the American Telephone and Telegraph Company reported that the average holdings of its nearly 1.3 million shareowners amounted to 27 shares. Are these the rich men constantly referred to?

It has been said that the little man receives no benefits from these proposals. Yet under a $100 exemption more than 90% of the persons relieved completely from the burden of double taxation will be receiving less than $10,000 per year as shown in Table I. (1948 Statistics of Income data.)

It is also argued that the rich man will receive proportionately higher tax relief than will the small taxpayer. Actually the reverse is true. As you can see from Table II, the relief lessens as income increases. The percentage reduction is greater in the lowest income bracket and declines progressively as the income level rises. The same relationship holds true for dividend income. As dividends increase relative to income, tax relief decreases.

In fact, if the provisions are

enacted into law, the dividend tax burden will be shifted to an even greater degree to the upper income groups. At present, persons earning over $10,000 receive about 75% of the dividend income. If the relief provisions become law these same individuals will receive about 70% of the estimated 1956 $814 million tax relief.

When facts are exhausted, the opponents of dividend tax relief scream that such provisions discriminate against wage earners in favor of "coupon clippers." Gentlemen, the investors of America are wage earners first and income earners second. Dividends for most shareowners constitute only a small portion of their total income. For example, in 1950 dividends accounted for approximately 11% of the income of the average shareowner earning $5,000 and less than 20% for those earning $30,000. Rather than being discriminatory against wage earners, I would say that these provisions will be a step in the direction of restoring a tax balance between the various forms of income received by wage earners. For, unlike wages and other forms of income, dividends are taxed twice.

Revenue Loss Negligible

The effect of these proposals on Treasury revenue is negligible. For example, the revenue loss in fiscal 1955 would amount to considerably less than 1% of the estimated $62.7 billion of receipts in that year.

I think that this problem of equity in our tax laws is as important to a consideration of these proposals as any other reason offered. I think Representative Boggs has the same viewpoint. I would like to quote the statement he made as part of the minority report on H. R. 8300. In dissenting from the view of the other members of his party on the Committee, with respect to the dividend proposals, Representative Boggs said, "I fully subscribe to the minority views, except those on the provisions relating to the exclusion and tax credit for dividends. While a valid argument might be advanced that this is not the time, because of the urgent necessity for an increase in exemptions, to urge the dividend relief, I cannot subscribe to the attack on the principle involved.

"This is the only area in the whole Federal tax structure where double taxation exists in fact, and until recent years this was recognized in our tax structure. In addition to this, failure to take some action would continue this discrimination."

It is also interesting to note that Senator Walter F. George said in 1949:

"The law should be changed to allow a credit to the individual stockholder for taxes already paid by the corporation. As a starter, we should provide a credit of a certain percentage—say 10% or perhaps 16.6%, the amount of the first-bracket individual income tax. Ultimately we should exempt dividends from taxation completely."

In view of the importance of the dividend relief proposals I am at a loss to understand the reasons behind the move to strike this provision out of the law and substitute higher exemptions unless the reasons be, as I have previously stated, strictly political. Raising exemptions means only a slight increase in the workers "take-home-pay." On the average, this increase will amount to about 50c per exemption per week. It will not create more jobs, increase productive facilities, or lubricate our great economic system. Why not be truthful, and tell the man without a job that he is better off because his next door neighbor can afford an extra pack or two of cigarettes.

There are a few gentlemen of the legislature who are bowing to political expediency and practicing, in some instances, policial perscution by trying to profit politically at the expense of the poor fellow without a job. It is jobs that are required, not such political slide-of-hand, as is exemplified by increasing the exemption by $100. What does a $100 added exemption mean to the jobless man?

Gentlemen, I repeat, this is sheer political demagoguery.

The raising of personal exemptions by $100 would throw us back into substantial deficit financing. That is the reason, gentlemen, why the President of the United States and Secretary Humphrey are fighting so hard against this move. In addition the President and the Secretary of the Treasury oppose, on principle, the removal of from 4 to 7 million persons from the tax rolls and hence from any personal responsibility for the cost of government.

Time Now Propitious

We believe there is no more propitious time than the present for removing complex confusion, inequities, discriminations, and gross unfairness from the Internal Revenue Code. We therefore earnestly request that the provisions in H. R. 8300 relating to dividend income be retained in their present form, since they alleviate by far the grossest injustice in the present law. As I stated before the House Ways and Means Committee, "the best incentive device is a tax code that stimulates thrift. Double taxation of dividends is destructive of the very incentive that Congress is desirous of creating upon which our future depends. A dividend tax credit would cost the government only a small fraction of what it would gain through stimulation of day-to-day efforts to earn more and save more. Savers and investors are essential to our way of life. We cannot have big industry without them."

TABLE I

Number of Income Tax Returns Exempt From Dividend Taxation By a $100 Exclusion

(Based on 1948 Returns, last three digits omitted)

Adj. Gross Income Classes	All Returns With Div. Income	No. of Returns Exempt Under $100 Exclusion	Percent of Total Returns Exempt	(Cumulative)
Under $5,000	1,836	721	65%	65
$5-$10,000	855	296	27	92
$10-$25,000	450	73	7	99
Over $25,000	181	11	1	100
TOTAL	3,322	1,100	100	

(Source: U. S. Treasury Department Statistics of Income Part I, 1948.)

TABLE II

Tax Relief Afforded Under Dividend Proposals Full Effect 1956—10% credit $200 exclusion Married—joint return 10% deduction

Total Income	Present Tax	New Tax	Tax Savings %
	(All Income from Dividends)		
$2,000	$120	$42	65%
4,000	480	222	54
6,000	844	402	52
10,000	1,636	834	48
15,000	2,810	1,544	45
25,000	5,744	3,593	38
50,000	16,528	12,085	27
	(25% of Income from Dividends)		
4,000	480	344	28
8,000	1,240	966	20
16,000	3,080	2,620	15
40,000	11,800	10,700	9

(Source: Dr. Neil Carothers, Commercial & Financial Chronicle, March 25, 1954.)

Rogers Ray Jr. Joins Garrett & Co.

DALLAS, Texas—Addition of Rogers Ray, Jr., to the sales staff of Garrett & Company, 120 Fidelity Union Life Building, investment bankers, was announced by J. Ervin Shilg, President.


Rogers Ray, Jr.

Mr. Ray will handle all types of securities, including municipal bonds, mutual funds and all corporation securities, Mr. Shilg said.

The new sales representative for Garrett & Company is a graduate of Sunset High School and attended Southern Methodist University, where he was a member of Lambda Chi Alpha fraternity. He has served as President of the fraternity's Dallas alumni group.

Prior to joining Garrett and Company, Mr. Ray was associated with another investment firm in Dallas and has had almost 10 years experience in the securities field. He formerly served as President of the Church Men's Club at the Church of the Holy Cross and still is active in work of the Episcopal Church. He formerly served as a trustee of Daniel Baker College at Brownwood.

H. Hentz to Admit A. W. Morris to Firm

BEVERLY HILLS, Cal.—Arthur Morris, member of the New York and Los Angeles Stock Exchanges, on May 1 will be admitted to partnership in H. Hentz & Co., members of the New York Stock Exchange. Mr. Morris is a partner in A. W. Morris & Co., which will be dissolved April 30.

Bache 25-Year Dinner

Bache & Co., 36 Wall Street, New York City, members of the New York Stock Exchange, tendered a dinner at the Hotel Pierre for 97 members of the firm's Quarter Century Club. The firm brought Club members in for the dinner from out-of-town offices as far distant as San Antonio, Texas, and from Canada.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Despite periods when activity and volume appear to contract, there is still a good investment demand around for Government securities. The plateau in which prices seem to be reposing will most likely not be too sharply breeched until there are new developments, such as say a reduction in reserve requirements of the commercial banks. The demand for the 52-day tax anticipation bills came largely from the out-of-town buyers, with the dealer banks giving them most of the competition. The favorable reception for these bills had a good influence upon the money markets.

The near-term market has been very active because there seems to be a large amount of temporary money around. The intermediate term obligations continue to be well bought with a somewhat better demand being noted for the most distant maturities. Pension funds are still active in the longer term bonds.

An Anti-Recession Device

The lowering of the rediscount rate is being taken by most money market specialists as a signal by Federal that the easy money policy will be continued, probably for a long period of time. As had been previously indicated the cut in the rediscount rate is mainly psychological, because the deposit banks do not need to make use of borrowings from the Central Banks at this time because credit conditions are still on the easy side. Even though there is some difference of opinion as to what may happen to reserve requirements, with the lowering of the rediscount rate it appears to be rather generally believed now that there will be a decrease in the required reserves of the commercial banks when the powers that be feel it should take place.

The lowering of the rediscount rate is just one of the forces that is being used as an anti-recession buffer but it is believed that more tangible action, such as a lowering of reserve requirements, will be needed in order to make a rather definite impression upon the trend of business conditions.

Cut in Reserves Seen Inevitable

Reserve requirements of the commercial banks are high to start with, and even if economic conditions were not as much on the defensive as they are, there could still be a lowering of reserves that these banks have to keep with Federal. Moreover, the fact that a decrease in required reserves would make money available to the deposit banks which would be used to pay off indebtedness to the Central Banks, as well as give these institutions funds that would be put to work in Government securities, state, municipal and corporate obligations as well as mortgages, is considered to be the potent force in the battle against the deflationary trend.

The more or less automatic investment of newly available funds by the commercial banks should in time have an effective influence upon the trend of business, since the creation of deposits resulting from the purchase of securities by the banks would offset the decrease in deposits being brought about by the repayment of commercial and instalment loans. It might be that there would be a sufficient amount of new deposits created under such conditions to more than make up for the deposits that are being extinguished through the repayment of loans. This would result in the building up of bank deposits which are purchasing power and this is what is needed under current conditions.

Because of the indicated effects that a reduction in reserve requirements of the commercial banks could have upon a slipping economy, it is believed by not a few in the financial district that they will be lowered in the not too distant future.

Long-Term Issue a Strong Possibility

The favorable reception which was afforded the 52-day tax anticipation bills indicates not only the attractiveness of this obligation, but also the favorable condition of the money market as a whole. To be sure, the Treasury will have to borrow additional sums before the end of the current fiscal period and this brings up the question as to how it should be done. Despite the opinions that there will not be an issue of long-term bonds until some time in the future, there appears to be a lessening of the support for this idea, especially if there should be a decrease in reserve requirements of the commercial banks. There is quite likely to be securities that will meet the needs of the commercial banks, which would be shorts and intermediates.

On the other hand, if these should not be at least a token offering of long-term Government bonds, prices of the outstanding obligations would most likely move up to levels that would not be considered favorable. Accordingly, for market control purposes as well as money raising purposes, an issue of long-term Treasury bonds would not seem to be amiss.

Meetings Held on Coming Massachusetts Turnpike Bond Issue

A series of information meetings were held this week in Chicago, New York City and Boston on the $240,000,000 Massachusetts Turnpike Authority bond issue which is currently scheduled to reach the market on May 4 via a nationwide underwriting syndicate to be headed by F. S. Moseley & Co., First Boston Corp., Blyth & Co., Inc., and Tripp & Co., Inc. The meetings were presided over by spokesmen for F. S. Moseley & Co.

William F. Callahan, Chairman of the Authority, announced the appointment of The Bankers Trust Company of New York and The First National Bank of Chicago as paying agents in New York and Chicago, respectively, for the turnpike bonds. The First National Bank of Boston was previously appointed as trustee under the trust agreement.

Edward P. Renier With La Salle Securities Co.

CHICAGO, Ill. — Edward P. Renier has become associated with La Salle Securities Co., 208 South La Salle Street. Mr. Renier was formerly proprietor of Comstock and Company, was with H. M. Byllesby and Company Incorporated and Rodman & Linn.

Economic Activity Only 3% Below 1953 Peak

Quarterly economic review issued by the Chase National Bank of New York, holds slight downward trends indicate the business readjustment has not gotten out of hand. Says the economic challenge is "how to generate a new wave of expansion."

"Overall economic activity is only 3% below its 1953 peak. But current activity is 3½% above 1952—a very good year," according to the current issue of "Business in Brief," the quarterly economic review issued by the Chase National Bank.

To place the current business downturn in perspective "you need to look at all parts of the picture, not just the declines that make the headlines," the study says, pointing out that:

Business expenditures for new plant and equipment for 1954 call for a dollar volume only 4% under the 1953 record.

Private capital investment is slightly—but only slightly—below last year's peak rate.

The housing market is strong, with builders looking for another million-plus year.

Large manufacturing companies indicate that they are raising their investment sights. Last fall these companies planned an 8% reduction in capital investment during 1954, but now they report their investments will equal those of 1953.

"These trends add up to the conclusion that the business readjustment has not gotten out of hand," the review contends. "Inventories are being worked off at a rapid rate. Capital goods activity promises to level out. And consumer markets are holding up well.

"The economic challenge—not a novel one by any means—is how to generate a new wave of expansion. Business trends in recent months hold out hope that this challenge will be met."

Continued from page 9

Growth Trends in U. S. Economy

there is a lot more involved in the prosperity of this country — both in the past and in the future — than just technological advances. After the machines are built somebody has to go out and create the demand for the products those machines will produce. In other words, it takes an effective team to do the job—one group to improve products and production techniques and another to do the merchandising and selling. There is glamour in technology but let us make certain it does not obscure the great need in our economy for selling.

From all I have said so far it should be clear that we are moving rapidly into a new era—an era which will pose many challenges and call for all our imagination and ingenuity to solve. One thing is certain. We are all going to move into the future together and we are all going to be faced with the need of laying our plans carefully and making important operating decisions. We can do this best only if we take full advantage of marketing research and assess the various ways in which all the changes taking place in our economy are likely to affect our individual companies. I cannot urge you too strongly to utilize this valuable tool to the maximum degree.

Outlook for Profitable Investment Opportunities

Every once in a while I hear the fear expressed that America may not be able to move forward as rapidly in the future as in the past because profitable investment opportunities will become progressively limited. This is a fear of stagnation—a fear that our technological skill will eventually lead to unemployment. It is a fear that we will cease to develop new or improved products—that new industries will not be created.

American industry has one big answer to such fears—industrial research. American industry is investing hundreds of millions of dollars every year in this activity — in the unending search for something new—something better —something different — and the successes have not only been outstanding but hold exciting possibilities for the future. Industrial research works against the restriction of capital investment and instead stimulates investment and gives capital an expanding impact. Fortunately, industrial research is the product of competition. The more it succeeds the more it grows. The more it grows the more vitality it gives to American industry.

Underdeveloped Foreign Countries and the Point 4 Program

No analysis of long-term growth trends within the United States would be complete without giving consideration to the role of our country in the world economy and the influence of underdeveloped areas on the United States economy.

As you all know, under the program known as Point 4, our country has been actively engaged in an effort to assist underdeveloped countries by helping them acquire technical skills, showing them how to improve health, education and sanitation and assisting them on how to make better use of their natural resources. It also has been part of the program to encourage American foreign investments.

The underdeveloped countries, of which there are now 38, include over a billion people, half the world's population, living in over half the world's land area. Per capita income in this whole area is low, under $100, and in some areas as low as $30 a year. Life expectancy in many areas is 30 to 40 years.

These facts make it apparent that the economic situation in most of these areas is very poor by any standard. Their vital importance to us can be appreciated, however, when it is realized they supply 73% of all United States imports of strategic and critical materials and account for 58% of all our imports. On the other hand, 44% of all United States exports go to those same countries.

In closing, I would like to take a minute or two to summarize the powerful combination of factors which are at work in our economy:

(1) Great increases in our population are taking place. By 1960 we should have 10% more people equal to a population of 180 million in this country than at present and about one-third more by 1975 equal to a population of 215 million people.

(2) Employment which is now very close to our all-time high level should reach about 84.5 million by 1975 for a gain of close to 40% over the average so far this year.

(3) Our per capita income and standard of living is now but 1.6% below the all-time peak ever reached by this country or any other country in the world—and

is expected to advance by about one-third by 1960 and be nearly double our present level by 1975.

(4) To satisfy the growing demand for merchandise, maintain our educational level, and advance the American standard of living huge capital investments—investments which cannot safely be postponed — must be made for many, many years by both government and industry.

(5) Industrial research will provide almost endless opportunities for the profitable investment of capital and give capital an expanding impact on the future growth of our country.

(6) Improvements in the standard of living in various foreign countries, with a total population of about one million people, improvements which are expected to proceed at an accelerated pace, could step up the demand for American products to an enormous degree.

In my opinion it would be almost impossible for any of us to ask or even wish for a more favorable set of factors pertaining to our future growth possibilities than those I have outlined. As I see it, the one thing that could prevent America from taking full advantage of its opportunities would be for us to adopt a lackadaisical or complacent attitude. Opportunities can be converted into achievement only by hard work and careful planning. If all of us make certain we do this to the very best of our ability, there can be no doubt that America will move forward to new high levels in the future.

Nassau County Bonds Placed on Market by Chase Nat'l Bank Group

The Chase National Bank heads a syndicate offering $17,078,000 Nassua County, N. Y., 2.40%, various purpose bonds, dated May 15, 1954. The bonds mature Nov. 15, 1954, and each May 15 from 1955 through 1983, inclusive.

The bonds are offered at prices scaled to yield from 0.85% to 2.80%, according to maturity.

Associated with the Chase National Bank in the offering are—Bankers Trust Company; Blyth & Co., Inc.; Smith, Barney & Co.; The Northern Trust Company; Harris Trust & Savings Bank; Glore, Forgan & Co.; Chemical Bank & Trust Company; Lazard Freres & Co.; Salomon Bros. & Hutzler; Stone & Webster Securities Corporation; A. C. Allyn and Company Incorporated; Lee Higginson Corporation; Estabrook & Co.; Reynolds & Co.; F. S. Moseley & Co.; L. F. Rothschild & Co.; Schoellkopf, Hutton & Pomeroy, Inc.; Equitable Securities Corporation; Dick & Merle-Smith; Laurence M. Marks & Co.; R. L. Day & Co.; Eldredge & Co. Incorporated; Fidelity Union Trust Company, Newark; Roosevelt & Cross Incorporated; Tucker, Anthony & Co.; Francis I. du Pont & Co.; W. E Hutton & Co.

The Illinois Company; City National Bank & Trust Co., Kansas City; First Securities Company of Chicago; Hirsch & Co.; Carl M. Loeb, Rhoades & Co.; American Securities Corporation; Stokes & Co.; Bartow Leeds & Co.; E. F. Hutton & Company; Wm. E. Pollock & Co., Inc.; A. M. Kidder & Co.; Goodbody & Co.; R. D. White & Company; Hayden, Miller & Co.; Field, Richards & Co.; Hannahs, Ballin & Lee; Newhard, Cook & Co.; Folger, Nolan-W. B. Hibbs & Co. Inc.; Mackey, Dunn & Co. Incorporated; Newburger, Loeb & Co.; John Small & Co.; Freeman & Company; Ball, Burge & Kraus; Sills, Fairman & Harris Incorporated; Tilney & Company; J. A. Overton & Co.; McCormick & Co.; Robert Garrett & Sons; Shannon & Company; and Ginther, Johnston & Co.

Railroad Securities

Chicago, Rock Island & Pacific

One of the better grade railroad stocks that has failed to participate in the generally more buoyant tone that has characterized the recent rail market is Chicago, Rock Island & Pacific common. Selling about midway between the year's high and low, the stock evaluates the most recent earnings (12 months through February 1954) only 4.6 times and affords a return of nearly 7.5% on the well protected $5.00 dividend. In view of the highly conservative capital structure, the huge amounts that have been spent in recent years on improvements to the property and for modern equipment, and the broadening of the traffic base by virtue of industrialization of parts of the service area, most analysts are of the opinion recent prices represent an unwarranted pessimistic appraisal of the future prospects.

The reorganization consummated by Rock Island a relatively few years ago was one of the most drastic formulated by the ICC for any Class I railroad. Not content to rest there, the management on emergence from bankruptcy instituted an aggressive policy of debt retirement through open market purchases of the new bonds. The Income bonds were entirely paid off and the First Mortgage bonds were refunded at the very low interest rate of 2⅞%. This issue, outstanding at $49,607,000 as of the end of last year, and $50,374,582 of equipment obligations represent the company's only debt. Moreover, fixed charges have, in the process, been reduced to $3,282,000 and now absorb only 1.6% of gross revenues at the present annual level.

More recently, the company started working on the preferred stock. By the end of last year it had acquired 55,054 shares, reducing the amount outstanding to 650,094 shares. Thus, the total of capital obligations ranking ahead of the 1,408,768 shares of common stock amounts to roundly $165 million and this will be further gradually reduced through payment of maturing equipment serials and operation of the sinking fund on the First Mortgage bonds. To the extent that it is ever possible to be so, Rock Island's capital structure may be characterized as depression proof.

To all intents and purposes Rock Island is fully dieselized—it has a few steam locomotives remaining for stand-by purposes. Also, the management has engaged in extensive line relocation projects, the last important one of which was completed last year. These changes were designed to reduce the excessive curvature that characterized the property in the past, and to shorten distances between important terminal points. This latter program was undertaken with the dual purpose of increasing operating efficiency and improving the road's competitive position with respect to transcontinental traffic. On both scores the program has been notably successful.

Last year Rock Island was adversely affected by drought conditions in the wheat areas it serves. While the road's interests have diversified in recent years through the industrial expansion in the territory and the improvement in its competitive position with respect to transcontinental traffic, this wheat is still of great importance. Despite the drought damage to the crops, and the consequent decline in revenues, Rock Island last year reduced its transportation ratio to 34.5%, compared with 35.9% in 1952 and above 38% in the immediate postwar period. At the same time, its profit margin increased to 19.3% against 18.5% in 1952. Common share earnings soared to $16.07 from $13.58 a year earlier.

Traffic and revenues have continued sharply lower so far in the current year and the expense ratios have been appreciably higher. As a result, earnings on the common for the two months through February dropped to $1.16 compared with $2.75 in the like 1953 interval. The decline in traffic has been tending to narrow more recently and the grain prospects have improved materially in recent weeks. Thus, there seems to be little question but that comparisons in coming months will be considerably more favorable. The management itself has been sounding a more optimistic note recently. On the basis of the present outlook, analysts are inclined to estimate that for the full year 1954 earnings will go no lower than $11-$12, a possibility that is more than reflected in the present selling price for the shares.

Merger of Orvis Bros. And Wells & Stanton

Announcement has been made of a proposed merger of Orvis Brothers & Co., securities and commodities brokerage firm, and Wells & Stanton, New Orleans cotton commission house. The consolidation is planned to become effective on May 7 under the firm name of Orvis Brothers & Co.

Wells & Stanton, members of the New Orleans Cotton Exchange, operate offices in New Orleans and Lubbock, Texas, and these offices will be continued under the Orvis name. Charles W. Wells and George W. Stanton, principal partners of the southern firm, will join Orvis Brothers & Co. as general partners.

Orvis Brothers & Co., members of the New York Stock Exchange, and other security exchanges, are also active in the commodities field, having memberships in the nation's leading commodity exchanges. The merger, according to Warner D. Orvis, senior partner of the Orvis firm, will materially broaden its facilities for the handling of commodity business, notably in cotton, in which field the Orvis firm has been well known for many years.

Wells & Stanton has been prominently identified with the cotton commission trade in the south since 1922. Charles W. Wells is a former President of the New Orleans Cotton Exchange.

Orvis Brothers & Co., formed in 1872, will consolidate its present New Orleans office with the Wells & Stanton office there. The addition of the Lubbock office increases the number of Orvis offices to 12, located in key cities in the east and south. Its principal office is in New York City, at 14 Wall Street.

Robert Perry Partner In Bergues, Wentworth

SAN FRANCISCO, Cal.—Robert H. Perry, identified with the investment field in Los Angeles and San Francisco, has recently been admitted as a general partner of the investment management firm of Bergues, Wentworth & Co., 155 Montgomery Street.

The London Stock Exchange Boom

By PAUL EINZIG

Dr. Einzig discusses the various factors which may have induced the boom on the London Stock Exchange and finds that the most probable cause has been the removal of the threat of a premature restoration of sterling convertibility. Holds equities on the Exchange have been benefited by dividend increases and bonus issues, and by resumption of moderate increases in the price level.

LONDON, Eng. — Week after week the Stock Exchange continued to display remarkable firmness in April. At first this was attributed to Budget hopes. It was widely expected that Mr. Butler would risk the unpopularity of making really substantial tax concessions to business enterprise and to the investor, for the sake of encouraging much-needed new capital investment. These hopes were disappointed. The Budget gave industry very little and it gave nothing to the investor. In spite of this, after a few minor setbacks, the boom continued.

Dr. Paul Einzig

Nor was the decline in the popularity of the Conservative Government, as indicated by unfavorable by-election results, able to check the boom. Until the middle of April, the percentage of Conservative vote showed a small but steady increase for months in each by-election. During the second half of April, on the other hand, Socialists gained substantially on the Government. As a rule, this should depress the Stock Exchange, owing to the increase of the chances of Labor returning to power after the next general election. This time the Stock Exchange chose to ignore the adverse indications.

Even the hydrogen bomb scare, the deterioration in the military situation in Indo-China, and the growing pessimism about the prospects of the Geneva Conference, were unable to damp the optimism of the Stock Exchange. In some quarters this is explained on the ground that these factors, by foreshadowing a further increase in arms expenditure, in industrial activity and in stockpiling, are in fact largely responsible for the boom. This argument overlooks the fact that the rise is shared not only by equities but also by Government loans. Indeed, on the few occasions on which equities suffered temporary setbacks, Government loans continued to forge ahead. Yet any deterioration of the international political and military situation would be a bear point to Government loans. It would mean more public expenditure, bigger deficit, more borrowing.

The causes of the boom must be sought elsewhere. Many commentators attribute it to the prospects of a Bank Rate reduction. Yet after each Thursday's meeting of the Bank of England the absence of the anticipated announcement of Bank Rate cut is unable to prevent the boom from continuing.

The fact of the matter is that the markets for equities and for Government loans are influenced by largely separate and at times conflicting factors, and the rise of the one stimulates the rise of the other. Equities benefited by dividend increases and bonus issues; by the resumption of a moderate increase of prices after 12 months of complete stability; by the prospects of more arms expenditure, and by better figures of exports and output. Government loans benefited by the firmness of sterling, by the unexpectedly large increase of the sterling area gold reserve in March, and by Mr. Butler's promise of an economy drive. The firmness of equities helps the Government loans, and *vice-versa*.

Above all, both sections of the Stock Exchange have been helped by the removal of the threat of a premature restoration of sterling convertibility. Until recently fears were entertained in many quarters that the Government may allow itself to be persuaded to risk an early decision to that effect. It would mean the risk of having to tighten credit and raise interest rates in an effort to maintain convertibility. This would be equally bad for Government loans and equities.

Today the number of people who still think in terms of early convertibility is very small. The idea of convertibility in 1954 has been gradually abandoned. Fears of measures which would cause a fall in Government loans and equities have largely subsided. This consideration probably as much as any other, may be regarded as the explanation of the Stock Exchange boom.

Chicago Street Club Elects Officers

CHICAGO, Ill. — The Street Club, an organization of younger men in Chicago financial houses, held its annual meeting in the Press Room of the La Salle Hotel on Wednesday, April 21, 1954.

Officers elected for the coming year include:

President—James V. Donoghue, A. G. Becker & Co. Incorporated; Treasurer—John C. Sturgis, Continental Illinois National Bank; Secretary — William A. Corbett, Hornblower & Weeks.

Directors include: Homer Hargrave, Jr., Merrill Lynch, Pierce, Fenner & Beane; Gordon Bent, Bacon, Whipple & Co.; Gordon Teach, A. C. Allyn & Co.; Donald C. McCotter, Lee Higginson Corp.; Bruce J. Simpson, Webber, Simpson & Co.; Edward Liphardt, The Milwaukee Company.

Directors will elect a Vice-President at the first business meeting of the new organization.

New York Stock Exchange Weekly Firm Changes

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

John Kerr will retire from partnership in T. L. Watson & Co. April 30.

Transfer of the Exchange membership of Herman M. Freydberg to Robert Bollt will be considered by the Exchange on May 6.

Transfer of the Exchange membership of Samuel H. Robinson to George Stein will be considered May 6.

A. C. Schenkosky Opens

WICHITA, Kans. — Albert C. Schenkosky has opened offices at 212 North Market Street to conduct a securities business.

Robert A. Rice

Robert A. Rice, partner in Francis I. du Pont & Co., passed away April 13.

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Inalienable Rights vs. The Union Shop

Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness."

This affirmation of the inalienable rights of man found implementation in the Constitution of the United States as well as in the Amendments known as the Bill of Rights, which were adopted in 1791 due in no small part to the insistence of Jefferson. It is found in many places in the Bill of Rights, including the Fifth Amendment with its provision that no person shall be deprived of life, liberty or property without due process of law, and the Ninth Amendment with its provision that the enumeration in the Constitution of certain rights shall not be construed to deny or disparage others retained by the people.

Time and again the Supreme Court of the United States has said that these Rights and these Liberties include the right to engage in any of the common occupations of life without the imposition of unreasonable or burdensome restrictions.

Since 1776 the world has been catching up with Jefferson and the other founding fathers of America even though the pace has not been as fast or as steady or as uninterrupted as we might desire and even though it would take an optimist indeed to say that anything like the full measure of their objectives has been universally attained. In 1948 the General Assembly of the United Nations adopted a Universal Declaration of Human Rights which not only set forth the substance of what I have quoted from the Declaration of Independence, but which went on to add something more specific in its bearing on the subject which we are discussing today. Article XX of the Universal Declaration reads as follows:

"(1) Everyone has the right to freedom of peaceful assembly and association.

"(2) No one may be compelled to belong to an association."

The Santa Fe Lawsuit

I believe that I was invited to speak to you today because the Santa Fe Railroad is engaged in a law suit in Texas which involves this freedom from being compelled to belong to an association. This suit is to prevent the railroad from being forced by the non-operating railroad unions to sign a "union shop" contract. Such an agreement would require the railroad to serve notice on all present employees who are not union members that they must join the union representing their craft within 60 days or be fired from their jobs. The agreement would require that new employees join the union within the 60-day period.

It is clear that the proposed agreement contemplates we would use the power of an employer to deprive individual men and women of a freedom which is theirs as an unalienable right. We are asked to fire people for exercising their rights. A right to pursue happiness — a right to get the means of sustaining life—a right of property—a right to work. It is a freedom of individual men and women which we cannot bargain away. It is not our right to bargain it away.

This union shop agreement was proposed under an amendment passed in 1951 to the Railway Labor Act, sanctioning a union shop under certain conditions. Under the amendment, the union shop was sanctioned, any other law, state or Federal, to the contrary notwithstanding, being in this respect unlike the Taft-Hartley Act which does not permit a union shop in the 16 states where right-to-work laws are in effect banning any arrangement whereby membership or nonmembership in a labor union is made a condition of employment. Years ago there was some compulsory unionism—quite a small percentage—in the railroad industry both with respect to so-called standard unions and company unions. In 1934, however, every form of compulsory unionism was outlawed in the revised Railway Labor Act passed in that year. The purpose of the 1951 amendment, advocated by most of the unions and solidly opposed by management, was to remove this ban.

The law suit was instituted by 13 Santa Fe employees at Amarillo, Texas, against both the unions and the railroad. Santa Fe subsequently aligned itself with its employees and against the union. In the first stage of what may be a very protracted proceeding the District Court at Amarillo found that the proposed union shop agreement would deprive the individual employees and the Santa Fe of rights guaranteed to them under the Constitution. The court granted a permanent injunction enjoining the signing of a union shop agreement. Also, the order of the court restrains the union from demanding such agreement through use of a strike or through other economic sanctions.

One of the witnesses who testified at Amarillo was a young man who had been discharged by another railroad. This young man had been a member of the appropriate labor organization. The time came when unfortunately both his wife and his child became ill. He encountered unusual expenses which caused him to be in debt and he became delinquent in his dues to the labor organization. When he became delinquent in his dues he was no longer in good standing and, under the agreement between the labor organization and the railroad in question, he was discharged. Of course this did not help him pay his debts nor did it help him or his family in the pursuit of happiness.

Is Compulsory Unionship Compatible With Constitutional Rights

Now, I do not propose to talk too much today about this specific case at Amarillo. It is an important case because it raises a question that has never, so far as I have been able to learn, been squarely presented to or decided by the Supreme Court of the United States, namely, whether compulsory union membership is compatible with the fundamental liberties guaranteed by the Bill of Rights.

There have been state court decisions, some one way, some another, but none by the Supreme Court of the United States. What is important is the principle of liberty that so thoroughly permeates the Amarillo case. The very fundamental liberty which is involved is the right to work without complying, as a condition of employment, with any requirement of membership or nonmembership in a labor union.

We are not opposed to unions on the Santa Fe. We have recognized railroad unions beginning in the 1880's, and we think that they have a useful and legitimate place among American institutions.

These railroad labor unions are among the very best of the labor organizations in the country. I know most of their executives, and they are good people. I have no quarrel with them personally. I have no quarrel with the manner in which the labor organizations have carried on. My difference with them relates to a question of principle on a specific issue.

We are resisting the demands for a union shop because we think they are contrary to the principles under which this country has been founded, because we do not wish to be a party to depriving our employees of their rights, and because we believe that the subjugation of the individual is contrary to the best interest of all concerned. We think that yielding to the demands would work injury, tangible and intangible, to the company and to the employees, both those who are presently union members and those who are not.

It is an obvious infringement on the liberty of a man to force him against his will to belong to any private organization. This is scarcely denied, but an attempt is made to justify the deprivation of liberty in the case of a labor union on a number of special grounds.

In the first place, the principle of majority rule is invoked. It is said that if the majority of employees unite in organizing a union on democratic principles their decision is binding on all. But this is no more true in a labor union than in any other type of private association.

There is nothing absolute about the principle of majority rule. It is not unlimited. Under free institutions the majority may not encroach upon the fundamental liberties of the minority. The very purpose of our Constitution and of the Bill of Rights is the protection of minorities. Tyranny and oppression are as bad at the hands of a majority as at the hands of George III or a dictator heading a modern police state.

There is reason for believing that in America today the danger to liberty from outside our borders is not the only one we face. There is also the danger which has its origin in the impulses and emotions which impel the crowd to infringe on individual rights.

Arguments for Compulsory Union Membership

Compulsory union membership is also supported by an appeal to the equitable theory that since the union confers benefits on all employees by acting as their collective bargaining representative and otherwise, each of them should be compelled to bear a share of the burden of supporting the organization.

Those who stay out, it is said, are free riders who get unjust enrichment at the expense of the members. Drawing an analogy between union dues and taxes, those who take this view say that democratic principles require nonunion men to contribute financial support to the union which represents them. They go so far as expressly to classify union dues as taxes.

These reasons no more support compulsory membership in a labor union than in any other type of association. Even if the premises of the free rider argument were fully valid, they would not justify the conclusions drawn from them. They would mean only that every employee should be required to pay to the union a fair share of its expenses of operation. They would not mean that the employee should, in addition to that, be required against his will to join an organization and subject himself to its government and discipline.

The payment of dues to the union cannot properly be likened to taxes. Taxation is a sovereign power and may be exercised by the government alone. There is not the slightest basis for the levying of taxes by a labor union or by any other private association.

Every Chamber of Commerce, every Board of Trade, every trade association, every taxpayers' league, many fraternal organizations, and many service clubs provide benefits for a group of persons. Quite a few people think one political party or the other provides inestimable benefits to all of the people of the country. Yet would that justify making membership compulsory in these associations, including the political parties?

The theory of the free rider argument is that when an organization is protective or promotive of the interests of a class or group, every member of that class or group should be compelled to join and support the organization. This idea is opposed to the fundamental theory of private organization. A group of people associate themselves to advance their common interests. They try to persuade as many others as they can to join with them, but since the undertaking is wholly private and voluntary they can use nothing but persuasion to obtain or retain members. According to the compulsory union membership theory, however, whenever an organization becomes representative of a large number of persons having a common interest, everyone having the same interest should be compelled to join the organization.

For the sake of testing the free rider theroy, let us look for a moment at the benefit bestowed upon workers as a class by the investors who raise the capital to build the plant and provide the management whereby workers are given employment. Suppose a law were passed providing that management could require as a condition of employment that all employees must belong to an industry protective association, formed to advance the welfare of the industry as a whole. A strong argument could be made that the corporate employer, by financing, organizing and managing the business, is providing the opportunity for employment which is so vital to the employees, furnishing them as it does with the means of earning a livelihood. It could be argued that the employer is not only investing money and taking risks for the benefit of the employees or the corporation, but is supporting the industrial association to look out for the welfare of all of those engaged in the industry, and therefore, the employees should not be free riders in the organization which likewise functions for their benefit. One could argue that they should be compelled to join the association, to pay their dues and to submit to the charter, by-laws and rules governing the other members of the industry association, which some might argue confers greater material benefits on employees than any labor organizations. Despite the apparent absurdity of this illustration, it has fully as much logic as the case for compulsory unionism.

"A Forced Follower"—Not a "Free Rider"

The non-union man in a craft represented by a union has no choice but to accept the wages, hours and working conditions negotiated by the union. His right to negotiate with the employer on these subjects has been taken away from him and vested in the union. He may strenuously object to union representation. But there is nothing he can do but accept it. The truth of the matter is that he is a forced follower, not a free rider.

The right to represent all employees instead of merely the union members is not a burden that has been forced on the union; it is a right and a privilege that they have sought and that they highly prize. About the last thing in the world the union leaders would want is to have the non-union men they represent free to bargain for themselves. The right of a union to bargain for all employees is something whose value to the union far exceeds any burden which it may entail.

The benefits that the employees get from a union can be over-estimated just as they can be under-estimated. No informed person would suppose, for instance, that the increases in wages in this country between 1939 and 1954 came about altogether by virtue of union activity. It should not be overlooked that some union policies benefit employees unequally. Some are greatly helped, others are aided moderately, while still others suffer a detriment, as for instance, where a large increase in wages raises costs and prices and curtails sales and employment.

The final ground that is urged for supporting compulsory union membership is that it is necessary for union security. Labor leaders have frequently placed their demands for security on the basis of need. They have said in effect: "We must have the closed or union shop to guarantee our existence and thereby insure protection of the gains of organized labor." Where this idea has been accepted, the acceptance has generally been uncritical and without question. But now that the union shop form of compulsory union membership has spread beyond mere local situations, it is time to evaluate the theory of the need for the union shop as essential to the survival of the union, or to its prosperity and well being, or its successful operation. It is time to test it and reappraise its role as an instrument of union security.

Modern Labor Organizations Favored by Laws

Modern labor organizations are in a position very different from their forerunners of three or four decades ago. It is not too much to say that the laws have been revolutionized in their favor. Employees have been given the right to organize and the right to bargain collectively. The correlative duty has been imposed on the employer to bargain with the union. The employer has been forbidden to interfere with the right of self-organization. A long list of practices to which unions have objected have been outlawed. The union as a collective bargaining agent has been given the right to represent all employees so that the union so selected is the bargaining agent for all employees, union and non-union alike. This provision takes away from the individual non-union employee the right to bargain for himself in the matter of wages, hours and working conditions, and places it in the hands of the union holding the right of representation. Thus from the organization of the union to the execution and enforcement of a collective bargaining contract, labor has secured the all-powerful helping hand of government. It is something of an understatement to say that labor is no longer the under-dog in industrial relations.

Is There Need of Compulsory Unionism?

Fortunately, the yardstick of ample experience in the railroad industry is at hand to test the validity of the assumption that the need for compulsory union membership continues under modern conditions. From 1934 to 1951, the Railway Labor Act specifically forbade closed or union shop contracts in the railroad industry. If the old assumptions about need were sound, one would expect to find that railroad labor organizations fared rather badly in that 17-year period. We all know, at least in a general way, that railroad labor unions have made considerable progress in recent years, and have enjoyed marked success. But we need not speculate—let us see what the record shows.

It is interesting indeed to examine membership figures of the three largest non-operating railroad unions during the period when the union shop was forbidden by legislation. They show a three-fold gain during this very time.

In 1935 there were about 72,500 members of the Brotherhood of Railway Clerks. By 1952 this figure had grown to at least 250,000, and perhaps as high as 350,000.

The Brotherhood of Maintenance of Way Employees in 1935 numbered about 33,500. In 1952 this figure was at least 158,600 and possibly as high as 171,400.

The Brotherhood of Railway Carmen also enjoyed an extensive expansion. In 1935 its membership was about 55,000, and by 1952 it was between 114,600 and 145,500.

The other rail unions expanded in a comparable fashion during the same period. These figures I have used are fair approximations based on reliable sources. They are not exact because the unions themselves are the only source of precise information and they are loathe to furnish such figures.

Membership is not the only area in which these unions have enjoyed outstanding success. By 1952 each had collective bargaining contracts covering substantially all—between 94 and 99%—of the railroad milage in the country.

Figures are not available to the same extent as to the gain during this period in the financial resources of these labor organizations. However, enough information is available to enable us to say with a moral certainty that railroad union finances improved greatly in the years 1934-1951.

Let me repeat—and we must not lose sight of the fact—that this expansion and growth took place during a period when it was a criminal offense to have a closed or union shop on an American railroad. Where then is the need for contract guaranties of union security of the sort found in a union shop agreement? The answer, plainly and simply, is there is no such need.

This experience in the railroad industry does not stand alone. It has its parallel in the growth in the ranks of organized labor in industry after industry without the coercive influence of the union shop or any other form of compulsory union membership.

Unions Abroad Have Grown Without "Compulsory Membership"

What has been true in the United States has likewise been true abroad, in England, on the continent of Europe, and in Australia. Unions have grown and prospered as voluntary associations without the aid of compulsory membership. I do not mean to say that the union shop or some other variant of compulsory unionism has been wholly absent in those countries because it has not, but it is by no means universal, and in the free world it is still not only being opposed by employers but disdained by important segments of workingmen who prefer to keep their associations on a voluntary basis and who reject the loss of individual liberty inherent in compulsory membership.

The labor union, we may therefore assume, may be strong and effective without resort to coercion and compulsion to fill its ranks. Labor leaders know that. Indeed, the principal spokesman for railroad labor candidly said so when he asked Congress to lift the ban on the union shop in the Railway Labor Act. He placed the desire for the union shop on the desirability of giving the organization more power of discipline over the whole group of employees, including those presently in the unions as well as those outside of the ranks. He wanted power, he said, to enforce the policies of the unions.

The added power of discipline would no doubt be a convenient instrument to the labor leader in many situations.

Union Discipline and Loss of Individual Liberty

But here we have another illustration that one man's accession of power is another man's loss of liberty, human dignity, and self-respect. The workman who is coerced into joining a private association against his will can no longer look the world in the eye with the same assurance of being a free American citizen. He has, in fact, become subject to discipline, to being pushed around. In the railroad industry he may be discharged only for failure to pay the initiation fees, dues and assessments, but he is, nevertheless, subject to every other form of union discipline and upon pain of that discipline he must abide by the charter and by-laws, the rules and regulations of the union.

Often as a union man he is expected to contribute to an associated political organization, and otherwise toe the line politically. Not uncommonly he is forbidden to advocate any legislation inimical to the organization, which in practice not infrequently turns out to mean what is disapproved by the leadership. This means an assertion of control by the union over many matters without direct bearing on the union's role of collective bargaining representative, and as to which the leaders assume to know better than the individual himself what is good and what is bad for him.

However appropriate this might be where membership in the union is on a voluntary basis, it becomes intolerable when it applies to one who is forced into the organization against his will. It is bad enough to force a man into a good union. But what about forcing fine American citizens into a union dominated by Communists, or one dominated by racketeers?

That is being done in this country today, and the doing of it is being facilitated by the laws and the institutions erected during the 30's and 40's in this country. The CIO has expelled a number of large and important unions because of Communist domination, but that has not ended their power or the power of other Communist-dominated unions under union shop agreements to force workers into their ranks.

Here in New York public attention has been focused in the past few years on unions controlled by racketeers and criminals on the waterfront and in the building industries, where honest men because of union shop agreements had to bow the knee to these criminals and racketeers to earn their daily bread.

These conditions point up the comment made by President Roosevelt in 1941, that under his leadership the government would never compel non-members to join a union by government decree. "That," he said, "would be too much like the Hitler methods toward labor."

"Coercion Is Inherently Wrong"

The method is essentially the same wherever coercion is employed, whether it be coercion of the unions, or the employer, or government, or some combination of them. And let it not be forgotten that coercion is inherently wrong whether the union be good or bad.

Some labor leaders know that this coercion is not in the best interest of everyone, not even of the unions themselves. Those labor leaders who, like the present heads of the Brotherhood of Locomotive Engineers, prefer the voluntary form of association, are following a sounder policy even when judged from the standpoint of union self-interest. Undoubtedly things are made easier for union leadership when it no longer becomes necessary to solicit members or to worry about the collection of dues. Quite true, the added power in disciplining members, in dealing with employers, with the public, and the government, must look attractive. But are all of these features unmixed blessings? I am far from sure. Everyone of them has produced and every one of them inevitably will continue to produce a reaction. The coerced conscript follower cannot be of the same value to the organization as the convinced adherent who joins of his own free will.

A change takes place in the relationship between the official and the rank and file in the sense that close communion is diminished and mutual understanding deteriorates. The member no longer has the right to show his dissatisfaction by leaving the organization—a privilege not infrequently availed of in a free type of organization and one highly prized by many men.

Theoretically the dissatisfied member has his remedy by the election of a new slate of officers or even voting for a change in the collective bargaining agency. Actually these remedies are not often invoked because they are enormously difficult to use.

From the standpoint of the union, one of the chief drawbacks to compulsory membership lies around the corner. Presently the status of the union is that of a voluntary private association, treated by the law as such. As it loses its voluntary character, as membership becomes compulsory and universal, can it be expected to continue to be treated as a voluntary organization? Isn't this unlikely in the long run?

A union, membership in which is compulsory, and particularly a union, membership in which is a condition precedent to holding a job in one of the major industries of the United States, is a likely target for progressively stricter governmental regulation. If that is what the proponents of compulsory union membership want they are going about it in the right way. They might profitably reflect that in totalitarian countries, like Spain and Portugal, the union is a quasi-governmental syndicate.

In a free country, free unions are more in keeping with other institutions as well as more conformable to the liberties of the people, and they no longer can remain free if they follow the policy of coercing and compelling membership.

Colvin With Walter Gorey

(Special to The Financial Chronicle)

SAN FRANCISCO, Cal.—Raymond W. Colvin has become associated with Walter C. Gorey Co., Russ Building. Mr. Colvin was formerly Sacramento Manager for Bailey & Davidson and in the past conducted his own investment business in San Francisco.

Joins Hopkins, Harbach

(Special to The Financial Chronicle)

LOS ANGELES, Cal.—Thomas A. Nixon has become affiliated with Hopkins, Harbach & Co., 609 South Grand Avenue, members of the Los Angeles Stock Exchange. He was formerly with Fewel & Co. and Wagenseller & Durst, Inc.

Perna, Ewart Now With Investors Research

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—Park J. Ewart and Vincent F. Perna have become connected with Investors Research Management Company, 6363 Wilshire Boulevard. Mr. Perna was formerly an officer of A. C. Karr & Co.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week — Bank Stocks

Most of the major banks during the past decade have shown substantial improvement in both the form and content of their reports to stockholders.

While there are still a few institutions that report earnings as a net figure without detailing charges, for taxes, reserves, etc., more and more are endeavoring to show operating results which portray an accurate picture of the conditions for the period.

In spite of the gains made so far there is still room for much improvement among some of the banks. The analyst must be constantly at work to evaluate and interpret these differences both as between banks in different regions and banks in the same locality.

Because of this it may be necessary for the analyst in stating the earnings of some banks, to provide a long explanation as to why the reported figures of the institution may not agree with his particular results.

This condition was particularly noticeable in the quarterly statements of operating earnings of the New York City banks for the first quarter of 1954. For example, the summaries of operating earnings for the period published by the leading investment houses show considerable variation in the results for Chase National and Guaranty Trust. In some instances the earnings for the quarter are properly marked with footnotes explaining why the figures differ from those reported by the banks. However, most explanations are inadequate in that they do not state why the figures do not represent the true operating results. To give an adequate explanation would take considerable time. However, the following comments it is hoped, may help to clarify in some measure how and why some of these differences arise.

In most instances the New York banks reporting operating earnings exclude security profits from the operating statement. Historically such profit or loss items have been treated as non-recurring and carried directly to surplus or valuation reserves. If such items were not considered as a part of operating earnings, it does not seem proper that tax charges or credits resulting from security profits or losses should be charged or credited to operating income.

This is where one of the principal differences arise. Although both Chase National and Guaranty Trust in their quantity reports show operating income before taxes, the reserve for taxes includes charges or credits resulting from security transactions. In other words the provision for income taxes takes into account transactions other than operating earnings. For this reason, it is impossible from the figures presented to determine accurately exactly what the operating earnings after taxes on operating income are for a particular period.

As long as the security transactions were small or resulted in only nominal profits or losses, the impact upon reported figures was of little consequence. During the past year, however, the rapid changes in the interest rate pattern have enacted the opportunity for substantial profits.

Thus in the first quarter Chase National reported net profit on securities of $1,120,000 as against $106,000 in the similar period of 1953. Guaranty Trust at the same time showed security profits of $2,967,849 in the three months ended March 31, 1954 as compared with a loss of $1,518,900 in the same period of last year.

Undoubtedly a fair sized portion of the tax provision in the first quarter was thus attributable to these security profits although the exact amount is not known.

Some analysts have endeavored to estimate the operating earnings taking this fact into consideration. Thus, whereas, it appears from the quarterly reports that Chase Bank earned 87 cents a share in 1954 and 84 cents in 1953, some of the investment houses have published reports estimating that a more accurate figure for the first quarter might be 91 cents a share. In other words, in the provision for taxes 4 cents a share represents taxes properly chargeable to security profits rather than operations.

Similarly, Guaranty Trust according to its report would appear to have operating earnings of 94 cents a share in the first quarter against 98 cents in 1953. In the 1954 period, however, the tax provision was $7,560,000 as against $5,970,000 a year earlier. Obviously, a large part of the change is due to changes in security profits. It is practically a certainty that had the taxes properly chargeable to operations been shown, earnings for the 1954 period would have shown an increase rather than a reduction.

While some analysts report earnings of Guaranty on the basis of company figures, others attempt to adjust for this. One house for example estimates operating earnings of Guaranty at $1.23 a share for the quarter as against 98 cents in 1953. Another estimates $1.15 a share in 1954 as against 98 cents last year.

In such a situation, it is essential that the analyst pay particular attention as to how the bank reports its earnings. Of course the banks could be more helpful by providing the necessary information. It is hoped that this will be accomplished before too long so that proper comparisons can be made and the need for detailed explanations unnecessary.

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As We See It

very much of a constructive nature is being done, the fact is certainly being effectively concealed from the public.

We are well aware that the preoccupation of the various agencies of communication with the McCarthy dramatics is in response to public interest, real or imagined —and we strongly suspect that the interest is more real than imagined. In fact, it is this realization which distresses us most. There are important matters at stake in the McCarthy hearings, of course, but they could and should be investigated and settled without all the antics now occupying the time and the attention of both Congress and the public. If they were being so dealt with, it would be much more likely that other important public business would receive the attention that it should have. And we are equally certain that were the public appetite for this type of "show" less keen, there would not be so much pains taken to put it on. What all this means is that it is the fault of the great rank and file rather than of the television, the radio and the press that this silly business is diverting attention from so many major problems.

Time Is Short

The fact remains that every day time is getting shorter and shorter in which statesmanlike progress may be achieved in this session of Congress, and there is in evidence no corresponding progress with the work which should be in hand. Run over the list of some of the more important matters on which this Administration has promised action—and on which the President has emphatically demanded action. Taxation, agricultural policy, international economic relations, housing, social security —these are some of the more vital of them.

On each of them the President has very strongly urged action. With what result? An Administration bill has been drawn and more or less vigorously pushed in the matter of broad tax revision, but its fate in the Senate and in conference later is far from clear at this time, and action appears to be lagging. In all other cases the program appears to be definitely lagging—and, what is worse, interest seems to be uncertain at best. The time is approaching, moreover, when members of the House and some of the Senate will be itching to get home and begin preparations for arduous campaigning.

Let there be no misunderstanding. We do not mean to imply that all these plans and programs of the President are worthy of adoption in the form he has suggested. Far from it. Some of them are in need of major modification. Some of them, in fact, should in effect be reversed. The point is that all of them have to do with vital current issues which urgently need constructive attention. Merely to neglect them, or to find convenient ways and means of evading them, is not statesmanship. The Republican party to deserve respect and support from the general public this autumn must show itself interested in and capable of constructive statesmanlike action, and there is not a great deal of time left.

The Administration, Too

Neither do we mean to convey the impression that all the shortcomings of the past year are to be laid at the door of Congress. It is unfortunately a fact that within its own domain and within areas where it has full discretion, the Eisenhower Administration has at points winced and relented and refrained. At others it has come perilously close to reversing itself completely. It certainly appears to have lost its enthusiasm for budget balancing. It has done good work in the reduction of expenditures, although more doubtless could de done, but it has felt it necessary to yield in the matter of revenue collection to the point where a balance of accounts is still a "far off divine event."

So far as debt management is concerned, the promises of the earlier days of the Eisenhower regime have apparently been completely forgotten. Abortive efforts to get the Federal debt into longer term form were quickly abandoned when it was found that higher interest rates were required. Meanwhile, altered monetary policy has maintained a ridiculously low system of yields on short-term Treasury debt, and the authorities at Washington have faithfully taken advantage of the fact—precisely as did their predecessors in office.

As to the "new look" in Federal Reserve policy, it is, of course, the official claim that it originated with the Reserve authorities and has been conducted and managed by them without any active participation by the Treasury or the Administration. In a technical sense, all this may be true enough, but hardly in any other sense. Members of the Administration itself, indeed, have not hesitated to claim credit for it as one of its steps in heading off depression, and no one in his right mind could for a moment suppose that the Reserve authorities would have acted as they have if it had been known that the Administration wished something else.

We are well aware that some of these steps have grown out of a supposition that the "stage in the business cycle" demanded such action, such stage having been reached after the new Administration took office. The fact of the matter is, however, that this supposition itself is New Deal in origin, and foreign to what many had hoped of the Republican regime.

Continued from page 15

Pros and Cons of the Closed Shop Issue

10 years of service. They were at first shocked by the thought that management could have a "grievance." I pounded the theme that collective bargaining is a two-way street. Finally they studied the records I had compiled and got out a leaflet to all in the bargaining unit warning that the Guild would not tolerate malingerers and would support management in discipline in such cases. The result was spectacular. In 1953, our average was 1.58% of total working days lost due to absence for illness.

I recently received a Chicago Research Foundation report on attendance among 22,000 employees in firms of all sizes showing an average of 3.42% of working days lost, which makes our record look very good to me. The Guild also warns employees who find it hard to get up in the morning! I think the fact that we had a nine-out-of-10 union shop and the union felt secure when I appealed to the Guild to help on the attendance problem, psychologically made it possible for them to take on some responsibility.

In a recent article Professor Sumner Slichter of Harvard University wrote: "The Taft-Hartley Act, as everyone knows, permits the union shop under certain conditions, but forbids the closed shop. The union shop provisions have worked out well in many industries, but there are wide areas in which the closed shop serves a useful purpose to workers and employers alike." No situation is perfect, obviously. Certainly in the newspaper industry the traditional closed shop has made for smooth relationships among the employees themselves. It has had other disadvantages which come more from the closed union situation, i.e., an aging group of employees to whom little or no new young blood is being added and there is inefficiency which results. In the press room, for example, we have "fly **boys**" in their sixties who will probably die as "boys" before a journeyman's situation opens.

The Right-to-Work Principle

Let us look at the position of those who insist upon "the right to work" in opposition to any form of union security. A number of states, chiefly in the South and West, have adopted "right to work" statutes. Last fall, Governor Gordon Persons of Alabama, signed such a bill. His message at the time of signing has been widely publicized, but some parts bear repeating.

"Mainly, this bill provides that no person shall be denied the privilege of working because he does not belong to a labor union and that no firm shall be forced to deduct union dues from the salary of the worker.

"Our labor union friends contend, and rightfully so, that unions have helped make possible better working conditions and higher wages. Because of this they feel that all employees in a unionized plant should be forced to join the union and that union dues be deducted from pay checks in what is known as the 'check-off' system. Union officials refer to those who do not desire to belong to the union as 'free riders' because such non-members obtain benefits of unions, without helping pay for such benefits.

"Along with this same line of reasoning is the fact that our churches are the greatest organizations in the world. They have done much for all mankind. Yet, no citizen is forced to belong to any church or required to pay dues.

"Unquestionably the American Legion, the VFW and other service organizations have done much to provide benefits to the veterans. Yet, it is not required of any veteran that he be forced to join any of the service organizations or required to pay dues to any of them.

"As a matter of fact, individual labor unions themselves have the right to say whether they belong to the AFL, the CIO or, in the case of others such as the railroad organizations and the UMW, to remain free and independent unions. . . .

"Many other such examples could be given. It may well be that workers in some of our northern states do not object to being required to join the labor organization in their plant and have no feeling about being forced to have dues deducted from their pay checks. . .

"However, in the south we have free and independent workers. Many wish to join labor organizations and do so. Certainly that is their privilege. On the other hand, many do not like the idea of being forced to join any labor union as a condition to work. Neither are they agreeable to having union dues deducted from their salary checks. . . .

"In my opinion, all of our labor unions will be far stronger and the members in them will have a far greater interest and respect in the organizations if membership can be shown to be desirable and they are not forced to join.

"Because I believe in free labor and free enterprise, I am today signing the 'right-to-work' bill."

Of course, Samuel Gompers, founder of the American Federation of Labor, opposed the closed shop, believed firmly in the strength that comes from free association. Yet it is in the AFL that there exist the tightest and harshest closed shops in the country—despite the Taft-Hartley Act.

As the pressure grows for passage by the states of more "right to work" laws employers with multiple production units are confronted with a difficult problem. A company operating in half a dozen states makes a master agreement with a union. The pattern for that agreement was probably set in the oldest plant unit. If there was a union shop there, it is more than likely that the union will use its economic strength to have it retained for the master agreement. Wages for particular jobs are often left to local negotiators because of variances in operations. But the pattern of working conditions is part of the master agreement. Suppose one plant involved is in a state which has a "right to work" law. Immediately the company has a great big headache—and possibly a strike.

As has been pointed out under the Taft-Hartley Act the union shop is legal. Elections to determine whether the workers wanted the union shop were abandoned by Congress because of their expense and the fact that the voting was always overwhelmingly in favor of the union shop. The idea of elections to prevent a minority from shoving the union shop on those who might not want it was all right but it struck me as naive at the time, as experience has proved it was. The rank-and-file union member has no greater tolerance of free-riders than have the union leaders. But now compulsory unionism becomes a subject for economic pressure.

If it were not for the existence of bootleg closed shop understandings—even when not written out —this discussion of the closed shop would be merely an academic exercise. But the closed shop in reality still exists despite the Taft Hartley Act. The notion that anyone must join a union and be accepted before he can get a job is thoroughly repugnant to many people. This is the essence of the closed shop. There seems to me to be a significant difference between that approach and the union shop which places no barrier to getting a job but requires one to support the union after being hired. Perhaps in making this distinction I am merely giving a sop to my conscience!

Better for All Employees to Be in Union

If the majority of the employees have chosen to be represented by a union, I think it is infinitely better for management to have all employees in the union. Even in the newer unions it does not take long for a feeling of resentment against the free rider to develop. I will go further and say that I think management serves its own interests best when it makes it easy for all to participate actively in the union. As I look back on some of my war time experiences with labor relations in the Todd shipyards, I realize now that we would have been smart to encourage the Shipbuilding Workers Union (CIO) or the AFL Metal Trades to hold their membership meetings on company property and even on company time for the sake of keeping the management of the unions out of the hands of the "extremists" who were willing to take a long drive into town after a hard day's work to attend a meeting at the union hall. In the nature of things shipyards are never built in the heart of the city. I think two strikes that we had would never have come to pass if there had been fuller participation by the union membership.

I can not get as emotional about this "right to work" as many do. I was very much interested in an article by a Jesuit priest, Father George E. Lucey, whose statement was published by the University of San Francisco recently. The heart of his argument is to be found in the following excerpts:

"Fundamental to all their arguments is the error that the right to work is an absolute right and a purely personal one. It is no such thing. The right to work is a conditional right and a social one.

"The right to work is honeycombed with conditions. First of all, a worker must be qualified for a job and must be accepted by the employer. No American tradition demands that Joe, the hod-carrier, has a right to a carpenter's job. And once Joe is on a job he is well aware of many other restriction. He must report at a specific time, work so many hours and according to rules and regulations, accept certain deductions from wages for Social Security, etc. No one seems to get excited about these restrictions on Joe's liberty. He is free to reject these conditions and look elsewhere for a more agreeable job. But if he accepts the job, he also accepts the conditions.

"The right to work, then, is not an absolute right. It is limited in many ways by the employer and by the government. No one claims that these restrictions are un-American and destructive of a workingman's freedom. . . ."

". . . One needn't join the American Legion or any such like organization, but neither does he share in its benefits. The advantages come only after he joins and pays his dues. It is quite different when a nonunion man works next to a union member. . . ."

President Eisenhower wants the states to take more responsibility in labor relations. He has a committee at work studying where and how to draw the lines between state and Federal authority. Meanwhile the Supreme Court has ruled (Garner vs. Teamsters' Union) that "When Federal power constitutionally is exerted for the protection of public or private interests, or both, it becomes the supreme law of the land and can not be curtailed, circumvented or extended by a state procedure merely because it will apply some doctrine of private right."

Nevertheless, one important area of action remains open to the states. Under Section 14(b) of the Taft-Hartley Act it is expressly stated that nothing in the Act shall authorize agreements requiring labor union membership in states where such contracts are prohibited. I believe that Governor Persons accurately reflected the feeling of a large number of people, including workers, to whom the idea of compulsory union membership is abhorrent and a repudiation of our democratic freedoms.

Although I think there is much merit to what Father Lucey says, too often unions demanding some form of union security fail to realize it is a privilege not a right which they ask and that they must accept responsibility and accountability. And these duties are not alone to union members, to those whom they represent, but to the public and to employers.

Unions have become so large and powerful that in their own interests they should strengthen democratic procedures and practices within the union. If they fail to take these actions voluntarily the government is bound to impose standards. This has begun to happen in the management of welfare funds. Taft-Hartley requires unions to file their constitutions and by-laws with the Department of Labor and requires that there be provision in them for regular election of officers, conventions, etc. But look at the corrupt ILA —they met and voted a lifetime job to their president—Joe Ryan. I remember some years ago a painters' local in Brooklyn whose business agent was convicted of extortion and sent to Sing-Sing. What happened to him when he got out? The local voted him back into his old office again. I asked a painter why they had done so. His answer was very realistic. "The bosses know he's a plug-ugly and so he is able to get more for us than a gentlemanly fellow could."

Conclusion

Looking at the national scene, I come to certain conclusions. First, I would never have outlawed the closed shop under the Taft-Hartley Act in industries where it had long been accepted. There are some industries like printing where the closed shop goes back to the Civil War, for example. In a union which has had the closed shop for more than a generation it has become almost an article of religious faith to refuse to work with a non-union member. Outlawing the closed shop in many industries merely led to bootleg "understandings" or to strikes or unsanctioned work stoppages. That is what has happened in the newspaper industry. A more realistic approach would have been for Congress to outlaw the closed shop where it had not existed for, let us say, five or ten years.

Secondly, I believe that there is today no justification for permitting extension of the closed shop to recently organized plants. Although I have stated the case for the "closed union" I believe it is incompatible with the growth of unionization under government protection. There is no doubt that the closed shop plus the closed union gives a power which too often corrupts.

Thirdly, conceding that states today have a right to pass the so-called "right to work laws," nevertheless with the spread of unionism and the multiple unit form of industrial organization there is a need for a national policy even at some abridgement of "state rights."

The great problem we face — and it can only be answered by persistent effort to make unionism serve the public interest—is reconciling the preferred status of trade unions today with their claim to be voluntary associations and to encourage greater acceptance by them of their private and public responsibilities. I believe that the effort of the practitioners of the art of labor-management relations will contribute to the balancing of equities.

Securities Salesman's Corner

By JOHN DUTTON

Building a Clientele

(Article I)

Building a clientele is a far different proposition than "one shot" salesmanship. Any product can be sold through high pressure methods if sufficient manpower and advertising are put behind the effort, and it has any public appeal to begin with. But this sort of selling has no place in the investment business. First of all it is non-productive over the longer term and it compels the salesman to constantly seek out new prospects and customers. Any man who constantly has to break "new ground" is in a hard business. Secondly, such selling as this might be advisable for certain products that do not have a repeat order possibility; that need no replacement and that do not wear out for a long while. But in the investment business it is a different matter. Performance must be durable—the merchandise must meet the test—and the client's confidence must be maintained.

Start Right

Any salesman who begins with the premise that he is going out to seek and find people who need help and assistance in achieving some very important objectives, is basically on the right track. The man who looks upon securities as his inventory that must be turned and sold as often as possible during the year should be running a department store, or should be in some "tangible line," rather than in the investment business. Securities are the MEANS TO AN END they are NOT THE END in itself. It is the customer and his requirements investmentwise that should come first in your thinking of what you should sell him; not the fact that you own a block of bonds or stocks that you must get off your inventory.

This may sound visionary and too idealistic to be worthwhile as a policy, but I am convinced that unless your own thinking can be so firmly rooted in the conviction that you are first a counsellor and a competent advisor, and a merchant of securities secondly, that you will find the building of a truly loyal and friendly clientele much more difficult than it should be. This does not imply that you must do business at a loss, handle unprofitable transactions, give service to those who abuse the privilege, and neglect profitable underwriting and selling group opportunities. I am suggesting the general approach —put the customer's welfare first.

Making Contacts

If you are equipped to render a complete investment service and you know that you can help people to obtain more income, capital appreciation, and sounder investments than they might have going it alone, then it follows that the first step is to QUALIFY your prospects. In every community there are top flight prospects, secondary prospects, and those that although they may be nice people, just don't have enough business to make it worthwhile to call on them.

In this connection, I am convinced from my own experience that if I would have (years ago) developed a method of weeding out unprofitable prospects and customers and would have spent more time developing people who could become more profitable accounts, that I would have saved myself much time and effort, and would have enjoyed a far larger income over the years. I think that this could be said of the majority of retail securities salesmen. There are only so many hours in the day—it takes about the same time to service an account that buys a hundred shares as one where the unit is 1,000. This does not rule out the small investor, but unless they can be handled with a minimum of effort, it is much better to spend this time developing accounts with substantial investment resources.

NEXT WEEK we will discuss some specific methods of qualifying a prospect, and later articles in this series will deal with methods of securing interviews, and establishing the confidence that leads to continuing business and builds good-will.

With Mitchum, Tully

(Special to THE FINANCIAL CHRONICLE)

SACRAMENTO, Calif.—Jeffrey T. Lee is now with Mitchum, Tully & Co., 926 J Building.

Floyd Y. Keeler

Floyd Yates Keeler, passed away April 22 at the age of 69. Mr. Keeler was formerly a partner in Orvis Brothers & Co. and at one time was head of the New York Commodity Exchange.

Bombs and Births

By ROGER W. BABSON

Mr. Babson discusses recent reports regarding the A and H Bombs. Forecasts these developments will result ultimately in removal of government offices from Washington and their distribution throughout a 50-mile radius. Looks also for decentralization of industrial plants.

Roger W. Babson

As an introduction to this week's column, let me say that I know nothing about A-Bombs or H-Bombs. My present thinking has been due to two things:

(1) **The Atomic Energy Commission has permitted one of its engineers to visit us in Central Florida and exhibit some of the uranium being produced from phosphate clays.** The recovery is very small per ton of clay; but there are billions of tons. This makes that part of Florida an important source of uranium. This should add to the attractions of the stock of some of our established phosphate companies.

(2) **The President has made reference to bombs in a recent speech and at his news conferences. This also is significant.** What is the reason for this exhibiting of our uranium resources and the constant references to the H-Bomb? Then we also have the pictures of the H-Bomb tests in the Pacific, and the various newspaper and magazine articles released thereon. These developments make me suspicious that important news is in the offing. Something perhaps is going on behind the scenes which none of us realize, and it may be announced before this column gets printed. It may be that the President is trying to prepare us for such an event.

Something More to Think About

The A-Bomb has been expensive to make. It is unofficially reported that such a bomb may cost \$50,000. On the other hand, the reverse may be true of the H-Bomb. After the new plant near Augusta is complete, it may be possible to make H-Bombs for \$100 each. I don't know, and am only reporting rumors.

Another story going about is that the new H-Bomb will make obsolete a good portion of the famous Oak Ridge Plant in Tennessee. Very revolutionary events are pending. The H-Bomb, owing to its greater destructiveness at less cost, may be of much more importance than the A-Bomb, although the latter is needed to set off the H-Bomb. Furthermore, this H-Bomb may be a factor—perhaps the deciding factor — in bringing about World Peace for the next 50 years.

Relocating Our Cities

Two points I am willing to forecast: One is that the H-Bomb will result ultimately in moving the White House Executive Offices, the Senate and House of Representatives, plus the Supreme Court, to the center of the United States. Washington, D. C., is now at its peak of importance. It could begin to decline in population and prestige. Washington real estate may now be a "good sell."

The other point is that the various Departments will someday be located in other cities within a radius of 50 miles. The Defense Department will be at one city; the Treasury Department will be at another city; while the Justice Department will be at another. In other words, the nine Major Departments will be in nine smaller cities located like satellites about the central city where the Executive, Legislative, and Judicial roots of the American Tree are to be transplanted. The only defense against enemy A-Bombs or H-Bombs is **decentralization.** Hence, factories will also be decentralized. The Central West and South will increase in population and prestige. Real estate in such midwestern cities may now be a "good purchase."

Recent FBI Notices

Added to the events mentioned above, we note the remarkable notice sent out by J. Edgar Hoover of the FBI, to be on the watch for heavy suitcases. These may carry A-Bombs and their lead insulations.

As a result of all the above, I forecast further important International Conferences which will be aimed to bring about World Peace at least for the life of all living today. These conferences, which started at Geneva on April 26, will discuss China and other Far East problems, as well as Russia. They may even lead to an international discussion of birth control, which is intimately connected with the elimination of war.

Minn. I. B. A. Group To Hold Dinner Meeting

ST. PAUL, Minn.—Investment Bankers' Association of America Minnesota Group will hold a meeting with officers and directors of the Ottertail Power Company on Wednesday evening, May 5, 1954 in the Gold Room of the Radisson Hotel, Minneapolis, Minnesota at 6:30 p.m. The dinner will be \$3.50 per person. Reservations may be made through: L. E. Shaughnessy, Chairman of the Minnesota Group, Shaughnessy & Company, Inc., 110 First National Bank Bldg., St. Paul 1, Minnesota.

Joins Reynolds & Co.

(Special to THE FINANCIAL CHRONICLE)

SACRAMENTO, Calif. — James L. Osborne, Jr. has become connected with Reynolds & Co., 919 Tenth Street. He was formerly with Shuman, Agnew & Co. and Investors Syndicate.

Colvin & Stine Add

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif. — Mark H. Seaver has become associated with Colvin & Stine, 41 Sutter Street.

With First California

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif. — Earl J. Spangler has become associated with First California Company, 300 Montgomery Street.

Germain With Mutual Fund

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif. — Jay C. Germain is now with Mutual Fund Associates, 444 Montgomery Street. He was formerly with First California Company and Wilson, Johnson & Higgins.

Two With Reynolds & Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif. — Harry K. Strickler and Robert H. Wilson have been added to the staff of Reynolds & Co., 425 Montgomery Street.

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The 1929-33 Depression Not Due to Gold Standard

tina, which were forced off gold late in 1929. When heavy United States loans abroad were sharply reduced in 1928—our stock market boom and rising interest rates were a factor — balance of payments difficulties affected other countries, some of which had large foreign balances in London and New York. The situation was aggravated by short-term capital movements, "hot-money," and when the liquidity crisis eventually caused a world-wide breakdown of the gold standard in 1931, the pressure of liquidation was shifted to the United States markets.

The heaviest gold withdrawals from the United States were felt in September-October, 1931, when some $725 million worth of foreign funds were converted into gold. (About three-fifths of this gold was taken by France which had decided to stabilize the franc at a greatly undervalued figure in 1926.) During November-December we had staved off the gold assault and the gold flow was again reversed (United States monetary gold stock increased by $170 million) but 1931 as a whole showed a net loss of gold amounting to about $135 million. Gold withdrawals again increased during the first half of 1932, reaching a total of nearly $500 million in May and June. By the end of the nine-month period from September, 1931, to June, 1932, our monetary gold stock had fallen by $1.1 billion.

However, statements that the gold standard was to blame and that heavy gold withdrawals caused an economic collapse and depression in this country were misleading. In the first place, gold withdrawals were chiefly foreign, ranging from a monthly average of less than 1% to nearly 16% of our monetary gold stock (in October, 1931), if we include gold earmarked for foreign account, and from 8% to about 13.5% in 1932, whereas domestic gold hoarding was not significant in amount. Average gold in circulation varied from 1.5% to 2.5% of total gold stock in 1931 and from 2.75% to 4.30% (June) in 1932. Gold circulation was declining during the '20s and reached its lowest ebb just before and after the 1929 crash. The demand for gold certificates increased somewhat but even during the periods of greatest gold withdrawals these did not exceed amounts in circulation in the '20s.

Thus it is safe to conclude that the United States crash was not caused by foreign developments, it was domestic; and the lack of confidence was not in our money but in our banks. The drastic liquidation, bank failures, and deflation marked by a drop of 40% in the price level represented a shakedown of excessive debt and a wholesale readjustment of speculative overinvestments and other distortions which had taken place in the late '20s. Whatever the causes, rock bottom of the depression had probably been reached by 1932 and business, badly chastened, was about ready to work its way out of the dumps.

Federal Reserve Monetary Policy Was Beginning to Work February-June, 1932

A close study of the business and credit situation in the first half of 1932 reveals that a sound and wholesome recovery was taking place which could have become a lasting recovery had it not been for purely artificial economic uncertainties brought about by the politics of that election year.

The story is an important chapter in economic and political history and is too involved to relate in full on this occasion. It begins with the passage of the Glass-Steagall Act of Feb. 27, 1932, which enabled the Federal Reserve banks to use United States bonds as security for Federal Reserve notes, instead of gold or eligible commercial paper, thus greatly increasing the ability of Federal Reserve banks to pursue a liberal credit policy and to meet the demand for currency and credit. Under this new Act, the Federal Reserve banks engaged in what was subsequently referred to as the greatest central banking experiment in history. By July they had purchased government securities totaling almost $1.1 billion. (This is, incidentally, precisely the amount of gold loss from Sept., 1931, to June, 1932.) The effect was to help the banks to meet further currency drains and to increase their reserves. This initial impluse set in motion forces which enabled commercial banks (a) to pay off their debts, (b) stop forced liquidation of their customers' obligations and (c) start expanding their credit. The short-term paper and gilt-edge bond market strengthened, business loans began to increase, inventory and wage payments revived, and all the symptoms of business activity were getting under way—first in the sensitive financial centers, then in the reserve city satellites.

Even the country banks were beginning to reflect improvement until, in June, the whole pattern became blurred when another flurry occurred in the international money market. This effort did not strain Federal Reserve bank resources. The Federal Reserve ratio was drawn down to be sure but these percentages were high to begin with. Even at the low point of 56.3% in July, 1932, excess reserves of nearly a billion dollars could be made available for further multiple credit expansion and a reversal of gold flow further augmented the credit expansion potential.

The low point of gold stock, of about $3.6 billion was reached in June-July, 1932. This was still equal to one-third of the world's monetary gold supply and it represented a ratio of over 8% of the total money (currency and bank deposits) in the United States, a ratio which was higher than the gold reserves which had financed the inflationary booms of 1929 and 1920, respectively, and one that was not out of line with other pre- and post-World War I years.

The monetary gold stock increased by more than $50 million in July, by more than $100 million in the next two months, $75 million in October and November, and almost $200 million in December. The resulting net increase, for the year as a whole, amounted to $53 million. Also, the banking system had its reserves increased from two other sources, namely, the return flow of currency and the issue of new national bank notes.

In mid-July and August general conditions took a more favorable turn. A reversal of business sentiment occurred. The gold drain had been met; banking disturbances had been quieted by liberal support from the Reconstruction Finance Corporation; radical inflation proposals had been forestalled; the security markets experienced a vigorous upturn which carried into early September; and production and trade showed a marked revival which was world-wide in character and which was well maintained to year-end. Some 18,000 commercial banks with $36 billion deposits had a record level of $580 million excess reserves and it seemed that the threat to the banks had been overcome. However, trouble was again appearing. Bank closings for December had shown a decided increase.

A Sound Economic Recovery Was Nullified by Political Disturbances

The recovery which had taken on such a definite pattern in August became hopelessly blotted out as the political campaign grew more and more heated and public confidence in commercial banks became completely shaken during the period from November, 1932, to March 4, 1933. Instead of a recovery pattern we trace a pattern of currency hoarding and bank failures. From 24,000 commercial banks at year-end 1929, the number had become reduced to less than 14,000 by June, 1933. The first wave of bank suspensions occurred in November-December, 1930. During 1931, 2,293 banks failed and in 1932, 1,453, but the great wave of suspensions started in December, 1932, and snowballed until the nation-wide bank moratorium was declared by the President on March 6, 1933. (For the year 1933—practically from January to March 4—some 4,000 bank suspensions occurred.) Money in circulation rose from $5,358 million in January to $7,250 million on March 8. Most of this was in the form of Federal Reserve notes, although some increase occurred in gold coin and certificates. The emergency subsided quickly and currency flowed back to the banks. Circulation dropped right back to its previous level again. This is most convincing evidence that people had no lack of confidence in our money nor in the gold standard.

It seems hardly necessary to elaborate the reasons for collapse of the banking system, except to say that no analysis of the economic facts can account for it. Liquidation in the United States had about run its course and conditions abroad were stabilizing. Leading countries, forced off gold in 1931, wanted to return to the gold standard and there was general approval of it at the close of 1932. The only plausible explanations of the collapse are political.

There is a fairly voluminous literature dealing with this controversial period, but most of it is of propaganda character designed to rationalize party policies and hence of little scientific value. However, some writers, reviewing events after the heat of political emotions had died down relate the story with historical perspective. For instance, Mr. Arthur A. Ballantine, who was Undersecretary of the Treasury at the time, wrote a well-balanced and objective account of the events which led to the bank moratorium in an article entitled "When All the Banks Closed" in the *Harvard Business Review* for March, 1948. Here he points out that though both political parties hade adopted "sound money" planks in their platforms the meaning of what was "sound" began to take on new interpretations in the course of events; that after the election a "lame duck" administration was powerless to ward off banking disaster without the cooperation of the President-elect and his party, who, in turn, were reluctant to take any responsibility for decisions until they were duly installed in office; and he quoted an astute observer who said that events from November, 1932, to March, 1933, "were shrouded in the mists of political controversy."

Both parties must share responsibility for having associated the operation of the gold standard with the depression and the break-down of public confidence in bank credit. In his opening campaign speech at Des Moines, Oct. 4, 1932, President Hoover, defending the Federal Reserve tight money policy, stated that we were on the verge of being forced off the gold standard in November, 1931, when the United Kingdom and other countries, after they themselves were forced to suspend gold payments, began withdrawing their balances from New York. Senator Glass telegraphed from his sick bed Oct. 7, denying any official expression of the "slightest concern over the gold standard" and "scouted the idea that there was the remotest chance of anything of the kind." Even Mr. Roosevelt later chided President Hoover for having made such a statement.

On the other hand, the Democrats, who had promised to cut the Federal budget 25% and campaigned on a "sound currency to be preserved at all hazards" plank, permitted rumors of dollar depreciation and gold manipulation to spread abroad without any denial. Instead of cooperating with President Hoover on the Glass Bank Reform Bill, Mr. Roosevelt conferred openly with the so-called "Committee for the Nation," a group favoring a paper money standard. Instead of joining President Hoover in reassuring the American people concerning matters of foreign debt settlement, currency redemption and dollar devaluation, Mr. Roosevelt maintained a strictly aloof and non-cooperative attitude and instructed his cabinet appointees to do likewise. By January-February, 1933, it became widely suspected that the new Administration was planning changes in our monetary standard of values. Thus rumors and events confirming rumors led to hoarding and bank runs and an "emergency" was effectively created March 4, 1933, the first of a continuous succession of emergencies that have extended over a period of more than 20 years (and still seem to be with us).

The Bank Moratorium and the Abrogation of the Gold Standard

The bank moratorium was an excuse and a step toward the abandonment of the gold standard. In rapid succession specie payments were suspended for an indefinite period of time (March 6, 10 and April 20); monetary gold had to be turned in to the United States Treasury; the gold clauses in all contracts were abrogated; the Thomas Inflation Amendment was passed permitting every inflationary device know to be used to "reflate" prices and decrease the debt burden by means of money management (and later to monetize the Federal debt for the purpose of deficit spending); an expensive and unnecessary silver purchase program was adopted—to the great injury of silver standard countries; the promising London Economic and Monetary Conference in 1933 was jettisoned to free the United States from foreign interference while engaging in money manipulations; and the gold dollar was devalued to encourage exports by bringing the dollar in line with other depreciated currencies.

We abandoned the gold standard on March 6, 1933, to meet an "emergency." It was expected at that time that the departure would be temporary and that the gold standard would soon be restored. It probably would have been re-established with no more than minor changes "if the government had been willing to make this the primary objective of its monetary policy. . . . In the end, however, it was decided that other monetary objectives were more important than maintaining the gold value of the dollar at its old level. We therefore remained off the gold standard during the remainder of 1933 and adopted a new and drastically changed gold standard in January, 1934." (Quotes from L. V. Chandler in the 1953 revision of his *Money and Banking*, page 147.) These decisions were made without benefit of the expert advice of monetary economists, without exploring the possibilities that these "new objectives" could be accomplished as well under the operation of the old gold standard. They were made on the naive assumption that a mechanical interpretation of the quantity theory of money would work to raise prices and bring about business recovery.

Not Enough Gold? The Evidence

President Roosevelt's assumption (e.g., May 17, 1933, speech) that the United States did not have sufficient gold reserve to resume specie payments is open to doubt. The facts all point to an opposite conclusion: we had an adequate monetary gold stock and ample reserves to support a domestic credit structure which had been thoroughly deflated (as had prices) and at the same time afford full protection against any conceivable foreign balance of payment withdrawals.

Gold withdrawals during this period, January to March, 1933, reduced our gold stocks from $4,266 million to $3,995 million and gold under earmark increased from $92 million to $370 million. Gold coin in circulation amounting to $158 million in October (end of month figure) started to increase in November, and reached a peak of $284 in February. Gold continued in circulation in lesser amounts throughout the year 1933 and until the Gold Reserve Act of 1934 put a stop to domestic circulation. Thereafter gold imports were resumed. The ratio of gold to currency plus total bank deposits in 1933 was approximately 9%—a higher ratio than that of the late '20s which had financed a great boom. The Federal Reserve ratio reached a low of 51.3% in March (when the peak figure of over $4 billion of Federal Reserve notes were in circulation), but excess reserves of some $800 million were still available to meet further deflationary pressures.

But there was no need for more gold; the real need was assurance that a dollar was still worth a fixed price in gold at the mint. Yet in 1933, although we held over one-third of the world's monetary gold and had reduced foreign credits to a low level and had restored confidence and minimized domestic hoarding, we nevertheless abandoned the gold standard and in 1934 devalued the dollar. It was a deliberate and unnecessary decision. The real reason for going off gold was that the New Deal didn't want to be hampered in its plans to manipulate money by any obligation to convert dollars into gold.

There was little reason for the fear that the readoption of the gold standard would lead to gold exports and hoarding and hence call for a tight money policy by the Rederal Reserve banks or in other ways nullify or make ineffective sound monetary management.

Nor was there much justification in January, 1934, for the 41% devaluation of the dollar to match the depreciation which had taken place elsewhere. The argument used was that our exports, e.g., wheat and cotton, were depressed because foreigners could not afford to buy them with high-priced dollars on the exchange markets. Authors of the argument neglected to consider that foreign countries devalued their currencies and imposed import controls in order to check purchases and stimulate their exports and that our matching their devaluations merely left them with the same fundamental imbalances which they had aimed to correct.[2] We may well ask: Is

2 From February, 1934, merchandise exports increased to a high point of 104% in October, 1937, and imports to a high point of 131% in March, 1937. From October, 1937, on and until World War II with its lend lease adjustments and so forth, exports were in steady excess of imports to the amount of approximately $100 million.

it a depreciating currency, rather than a sound one, that fosters trade? Must the best currencies pursue the worst ones down so that all nations can retain their positions in the world markets by stimulating their exports and curtailing their imports? Is this a new prescription for increasing the wealth of nations, namely, to give more and receive less?

I have left out in this chronology of events an account of depreciating the value of the dollar by means of the notorious gold buying policy which, by raising the price of gold from $20.67 an ounce to $34.45 in the fall of 1933 and to $35 in January, 1934, lowered the value of the dollar from 100 cents to 59 cents, where it was stabilized by the Gold Reserve Act of Jan. 30, 1934.

Economists viewed with some tolerance the emergency measures of March 6 and 9, and April 19 and 20, 1933, which closed the banks and provided for re-opening the strong ones, suspended gold payments and nationalized gold. They expected the United States to go back promptly since confidence was quickly reestablished. The abrogation of the gold clause in contracts June 5, and the AAA inflation amendment of June 12, shocked economists. The President's message of July 3, to our delegates to the London Economic and Monetary Conference represented an astounding *volte en face* from international cooperation to national isolationism. But when the gold buying program was announced in a nation-wide "fireside chat" on Oct. 22, and the actual gold price raising began on Oct. 25, a spontaneous protest was heard from groups of economists all over the country. The revolt eventually crystallized in the formation of the Economists' National Committee on Monetary Policy, Nov. 17, 1933.

This group of economists has followed with objective and scientific interest the course of events under our present limited, international gold bullion standard and irredeemable domestic money. We have been anxious to see how effective devalued dollar and monetary policies, unrestrained by the discipline of domestic convertibility, have been in raising prices, stimulating business recovery, increasing foreign trade and reducing the debt burden. Most of the members of this group belong to the academic profession, are nonpartisan, and have no special interests to protect except the social interest and the search for scientific truth. As a matter of record, the majority of statements issued by the Economists' National Committee on Monetary Policy have been critical of our monetary policies since 1933, and the minority of favorable statements have been concerned with matters of organization, etc. Would that it could have been otherwise!

One would expect that if the gold standard is the culpable agent of depression, its abandonment would make recovery easier and more conducive to efficient money management. What we discovered, however, was that freedom from gold standard restraints permitted manipulation of market forces and the growth of an unhealthy, inflated credit structure — principally by monetizing the huge public debt, and perpetuating a lack of confidence in an unstable dollar.

We are forced to conclude that the abandonment of the gold standard in 1933 produced a record of money management which can only be described as one of confusion. In the atmosphere of uncertainty and lack of confidence in money values prices bore no definite relationship to the supply of money and business languished. The "stagnation" or "maturity" theory of depressions gained in popularity. It was only after the impact of World War II came to be felt that both prices and employment reached their pre-depression levels. There is little doubt that the abandonment of the gold standard unnecessarily prolonged the depression of the '30s and instead of a stable dollar we have experienced fluctuations even more marked than before. Money management did not check a post World War II inflation and by March, 1951, the purchasing power of the dollar reached its lowest level on record (53 cents on the 1939=100 base) since the establishment of the Federal Reserve System in 1914.

Are Gold Reserves Adequate Enough Today to Permit the Adoption of a Gold Specie Standard?

The gold-shortage controversy has, in recent years, taken on a new form. Some maintain that since prices and costs have more than doubled and the money supply in the U. S. has quadrupled (more elsewhere), while the price of monetary gold has remained fixed at $35 per ounce, world gold reserves are no longer big enough to support swollen credit structures and sudden shifts in balance of international payments. Before convertibility can be considered feasible, they hold, the gold supply must be augmented. This can most readily be accomplished by increasing the gold price at the U. S. mint. Advocates of a higher gold price suggest varying figures from $44 to $75 per ounce to increase the dollar value of existing monetary gold reserves. This, they argue, would build up liquidity, domestic and international, and give adequate support to the inflated prices and debt structures in this country and abroad. They argue further, that unless this is done a return to gold payments will find our reserves insufficient and in the eyes of the uninformed the gold standard will be to blame.

In answer to these higher gold price advocates effective evidence has been presented in easily accessible places to prove that:

(1) Raising the price of gold would do nothing to correct the maldistribution of gold reserves and underlying causes of trade and payments disequilibrium and that any gains in monetary liquidity would soon be dissipated by the chronic distortions as long as they remain uncorrected.

(2) There is no support for the view that there is at present a world gold shortage any more than there was in the 1920's. The world's gold reserves (repriced at $35 in 1934) are even more adequate today in proportion to value and volume of world trade than they were in the '20s (this despite the sharp increase in the value of world trade since the war).

(3) In the U. S. our supply of monetary purchasing power could be doubled and still remain within the statutory reserve limits of our banking system. The gold stock to total money and deposit ratio, though declining since the war, is still about 10% (9.72% for December 30-31, 1953) which is much higher than it was in the '20s or during any other peacetime period.[3] The Federal Reserve ratio had, in 1920, fallen dangerously close to 40% and the gold ratio to currency plus total deposits was down to 6.7% (average for the year), but there was not at that time any serious thought of going off the gold standard.

(4) If chronic causes of unbalance were corrected, the world trade system would operate smoothly on relatively small gold reserves. In any case there is no need for raising the price of gold in order to stretch our reserves. I heartily endorse the following quotation from the National City Bank "Monthly Letter" of April, 1953 (p. 47):

"In view of this country's ample gold stock, its experience with inflation, and the commitments by the new Administration to protect the buying power of the dollar, it seems inconceivable that any alteration of the gold parity of the dollar would be approved."

(5) With sound domestic monetary policies limited in their objectives to maintaining a stable dollar and not to non-monetary aims quite beyond the scope of monetary controls, our credit-debt system can be safely and firmly anchored to a convertible gold base. This can be achieved without further manipulation of the standard.

(6) Moreover, the gold standard system is conducive to sound monetary policies since currency tampering and anything more than a relatively moderate inflation is impossible so long as the gold standard system is resolutely maintained.

3 Some critics maintain that the strength of our monetary gold reserves must be measured after giving effect to 100% of all foreign claims to gold i.e., not only in the form of earmarked gold and dollar balances held to their account in this country but also U. S. Treasury securities which can be converted into gold on demand. Except in the case of earmarked gold, there is no more reason to give priority to foreign claims in a fractional reserve system than to domestic claims. We have, therefore, included all deposits—along with currency—as gold claims in the ratio, but have excluded government debt whether held at home or abroad.

Northern Illinois Gas Common Stock Offered

First public distribution of common stock of Northern Illinois Gas Co., subsidiary of Commonwealth Edison Co., was made yesterday (April 28) with the offering of 400,000 shares of the midwest utility's common stock. A banking group headed jointly by The First Boston Corp. and Glore, Forgan & Co. offered the stock at $15.75 per share. Following the sale of the additional common shares, the company will have outstanding 6,292,484 shares of common stock, of which its parent, Commonwealth Edison Co., will own all but the shares currently being sold.

Directors of Northern Illinois have declared a dividend of 20 cents a share on the company's common stock, payable Aug. 1, 1954 to holders of record at 2 p.m. Chicago time, June 22.

Proceeds from the new financing will be added to working capital to be available for additional construction estimated at $62,000,000 through 1957. The public offering also will result in the establishment of a market for the common stock.

Northern Illinois was organized in November, 1953 for the purpose of acquiring and operating the gas utility properties and two small heating properties of Commonwealth Edison. In February of this year, these properties were transferred to Northern Illinois which assumed $60,000,000 of gas divisional lien bonds originally sold by Edison as well as other liabilities of the latter company. Northern also issued to Edison 5,892,484 shares of its common stock and sold to Edison for cash $10,000,000 of convertible preferred stock.

Northern Illinois supplies natural gas service in a large and rapidly growing suburban and Northern Illinois area outside Chicago, parts of which are heavily industrialized. For the 12 months ended Feb. 28, 1954, total operating revenues of the gas company, segregated on the books of Commonwealth Edison, amounted to $54,000,000 and pro forma net income for the period amounted to $4,675,000. The company is the second largest gas company in Illinois.

Capitalization adjusted to reflect issuance of the additional common shares, consists of $60,000,000 in long-term debt; $10,000,000 convertible preferred stock, and 6,292,484 shares of common stock.

Public Utility Securities

By OWEN ELY

Northern Illinois Gas Company
Commonwealth Edison Company

Chairman Willis Gale of Commonwealth Edison recently gave a talk before the New York Society of Security Analysts, in which he pointed out that since 1946 the company has installed nearly a million kilowatts of generating capacity and now plans to install another 641,000 by the end of 1956, in an effort to achieve adequate power reserves.

The company has doubled its supply of natural gas but still has 115,000 people on the waiting list for gas heat. The gas division has now been segregated in a separate company, Northern Illinois Gas Company. The latter is currently selling 400,000 shares of common stock which will establish a market, and in August, Commonwealth Edison plans to distribute part of its stock holdings to its own stockholders. The remaining stock may be distributed over a period of years to holders of Commonwealth stock, or possibly sold to Peoples Gas, or some other disposition of the stock may be worked out.

According to the recent prospectus of Northern Illinois Gas, share earnings for the 12 months ended Feb. 28 were 71¢ a share. The Illinois Commerce Commission has authorized new rates for gas service furnished on and after Feb. 1, 1954. If the new rates (including the purchased gas cost adjustment rider), the new boiler gas fuel contract with the Edison Company and the present level of costs of gas purchased had been in effect throughout the 12 months ended Feb. 28, 1954, the pro forma net income applicable to common stock for that period would have been increased to 93¢ per share.

Commonwealth Edison was also allowed an increase in electric rates, effective Feb. 1. Electric and gas rates together approximated $9.4 million after income taxes, which amount, divided by the outstanding number of shares, was equivalent to about 65¢ a share. However, Mr. Gale in his talk named a number of offsetting factors which would reduce the immediate gain to about 30¢ a share, so that 1953 earnings on a pro forma basis would have approximated $2.68 a share: (1) Northern Illinois Gas is not to be treated as a consolidated subsidiary, but as an investment, so that only the dividends and not the income will appear in the parent company's earnings. (2) These dividends will be taxed at 7.8% (52% on 15%). (3) Edison will thus not get direct benefit of the gas rate increase. (4) Separation of the two companies will involve short-term expenses (formerly handled jointly) such as meter reading, billing and collecting. Over the longer term these additional costs should be offset by greater efficiency of separate operations. (5) To the extent that future distributions of Northern Illinois Gas stock are in lieu of additional Edison cash dividends, the parent company will retain larger cash earnings to apply to its construction program. However, there will be an earnings lag while the investment in gas property is gradually being replaced by additional electric property. (6) The two preferred stock issues are convertible into common stock share-for-share and conversions have been accelerated by announcement of the pending distribution of gas stock. It appears likely that much of the remaining preferred stocks will be converted before the June record date for the first gas distribution. This will, of course, dilute the earnings on the common stock.

Summarizing, Mr. Gale estimated that "if we had had the benefit of our rate increase throughout 1953, and if we had separated our gas properties at the beginning of 1953, and if all our preferred stock had been converted at the beginning of 1953, our 1953 earnings of $2.38 per share would have been increased by about 30¢ to around $2.68."

Commonwealth Edison's rate increase was granted by the Illinois Commission in a relatively short period of time following application. The company did not request rates which would yield an amount equivalent to 6% on "fair value," although the Commission now recognizes fair value following the decision of the Illinois Supreme Court in the Telephone case.

However, the company gained two advantages, perhaps, by being fairly modest in its request: (1) It was able to extend its fuel adjustment clause to cover 100% of its electric business with respect to unit cost of electric production fuel, compared with 50% formerly recovered from large users only. (2) The City of Chicago instead of appealing the Commission's decision to the courts as somewhat anticipated (presumably under the terms of the company's franchise) reached a compromise agreement with the company by which the increased rates became effective a month or so later than originally allowed.

Commonwealth's electric construction program over the next four years is expected to cost about $425 million but the company will only have to raise an estimated $170 million through future financing. The latter amount is in addition to the $60 million made available through the sale of gas divisional lien bonds and about $10 million to be obtained via the current offering of $50,000,000 bonds, the balance of which will be used for refunding purposes. The company expects to develop an employee stock purchase plan whereby not over 500,000 shares will be offered from time to time at not less than 90% of market value.

Commonwealth Edison is currently selling around 41⅜ and paying $1.80 to yield about 4.35%.

Joins Dean Witter

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—Norval E. West has joined the staff of Dean Witter & Co., 632 South Spring Street.

King Merritt Adds

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—Ralph W. Shearer has been added to the staff of King Merritt & Co., Inc., 1151 South Broadway.

With Benjamin Currier

(Special to The Financial Chronicle)

BOSTON, Mass. — William B. Cowen has become connected with Benj. W. Currier, 70 State Street.

Lamont Co. Adds

(Special to The Financial Chronicle)

BOSTON, Mass. — Thomas M. Thompson is now affiliated with Lamont & Company, 89 State St.

Walston Adds Two

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif. — Sidney M. Bradford and Harold Greenspan have become affiliated with Walston & Co., 265 Montgomery Street, members of the New York and San Francisco Stock Exchanges. Mr. Greenspan was previously with Sutro & Co.

Joins Jamieson Staff

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif. — Louis J. Krumm is now with Jamieson & Company, Russ Building.

Mutual Funds

By ROBERT R. RICH

BROAD STREET Investing Corporation reports purchases of new shares by women investors accounted for 44% of its record increase in shares outstanding in the 12 months ended March 31, 1954.

Holdings by other investors, including private and institutional trustees, financial concerns, colleges, churches, hospitals and union and employee funds, also increased sharply. But on March 31, 1954, 4,880 women shareholders owned 43.7% of the mutual fund's total outstanding shares. Their investment in the company totaled more than $18,000,000.

Francis F. Randolph, Chairman of the Board and President of the fund, attributed this extensive and growing interest of women investors in Broad Street Investing to the mutual fund's emphasis on favorable current and future income as its primary investment objective.

The total number of Broad Street Investing shares outstanding surpassed 1,800,000 in March 1954, compared with 1,400,000 a year earlier. Of this total, women owned 787,500 shares or almost twice as many as the 410,000 shares owned by men. Holdings by men increased 22% during the year as compared with the gain of 2,890 in shares owned by women. The number of shares owned by joint accounts increased 33% to 303,000. On the average, women had an investment of $3,823 in Broad Street Investing shares on March 31 while the average for men was $3,904. Both of these averages are well above the comparable figure for the industry, Mr. Randolph said.

The increasing interest shown in the mutual fund by individual investors was matched by that of fiduciaries and institutional investors, according to Mr. Randolph. A total of 409 fiduciaries, such as private trustees and bank trustees, owned 82,200 shares as compared with the 345 fiduciaries that owned 66,400 shares a year earlier. The number of hospitals, colleges, churches and other institutions owning shares increased from 54 to 80 in the past year and the shares they held were up from 33,700 to 44,400. Financial concerns and other business organizations owned 48,600 shares as compared with 40,800 the year previously.

Mr. Randolph reported that the company's shareholders live in all 48 states. The largest number of shares held were owned by residents of New York, California, Wisconsin and Missouri, in that order. Broad Street Investing shares are also owned by investors in a number of foreign countries, including one shareholder as far away as Iraq.

INCORPORATED INVESTORS reports net assets of $143,909,632, highest in history, in its 113th quarterly report issued yesterday. During the first quarter the net asset value per share increased 10.4 per cent to $11.18.

Chairman William A. Parker and President Charles Devens state, in a message to stockholders, that the fund remains substantially fully invested. The management believes an upturn in business is probable before the end of this year.

Principal changes in the portfolio during the first quarter were:

PURCHASES

	Bought
Consolidated Engineering Corp.	10,000
Louisiana Land & Exploration	20,000
St. Lawrence Corp., Ltd.	15,000
Superior Oil	600

SALES

	Sold
Erie Railroad	45,000
MacMillan & Bloedel, Class B	30,000
Mission Corp.	18,000
Northern Natural Gas	25,900
Northwest Airlines, Inc.	37,000
U. S. Smelting	20,000
West Indies Sugar	35,000

NET ASSET value of Canada General Fund's portfolio stood at $20,504,921 as of March 31, an increase of $2,001,264 for the three-month period representing the third quarter of the fund's fiscal year.

In the same period net asset value per share advanced from $8.57 to $9.55, it was announced in the quarterly report just issued.

Major investment changes by the fund included the acquisition of 3,000 shares of Anacon Lead Mines Ltd. bringing current total holdings to 22,000 shares; 8,400 shares of British Columbia Power Corporation for a total of 16,350 shares; 4,100 shares of Husky Oil & Refining, Ltd., for a total of 48,300 shares; 3,800 shares of Trans Mountain Oil Pipe Line for a total of 8,900 shares; and 1,250 shares of Industrial Acceptance Corporation for a total of 26,175 shares.

Hollinger Consolidated Gold Mines, Russell Industries, Ltd., and Ventures, Ltd., were eliminated from the fund's portfolio.

TRUSTEES of Shareholders' Trust of Boston report that at March 31, 1954, net asset value was $27.75 per share, compared with $25.51 at December 31, 1953, a gain of 8.8% during the three month period. A dividend of 27 cents per share was paid from net investment income on March 26th.

During the March quarter total net assets crossed the $10,000,000 mark to stand at $10,052,903.

TOTAL NET assets of The George Putnam Fund of Boston increased during the first quarter of 1954 to a record high of $76,008,735, compared with $67,051,000 at year end.

The net asset value per share on March 31 was $19.46 on 3,906,571 shares outstanding after provision for the 20-cent dividend payable April 22, compared with $18.01 on 3,723,632 shares outstanding on Dec. 1, 1953. During the quarter the number of shareholders increased from 25,300 to 26,350.

The net amount of new money invested in the fund during the quarter totaled $3,429,000 compared with $2,472,000 during the preceding quarter.

THE ENTIRE field force of Distributors Group, sponsors of Group Securities, Inc., attended a three day sales conference held in the New York headquarters April 22-24.

One of the purposes of the meeting was to brief the wholesalers on Group's recently announced Capital Growth Fund. Present were: Alfred R. Stembridge of Boston; Walter J. Murphy of New York; Reginald L. Walsh of New York; Claude G. Thomas of Charlotte; John L. Ahbe of Palm Beach; John B. Cornell, Jr. of Dallas; Harold H. Grothaus of Chicago; John D. Wilson of Cleveland; and Miles Burges of San Francisco.

HUDSON FUND reported a 7.4% increase in net assets for the 12 months ended March 31, 1954. The increase, according to its quarterly report, boosted total resources of the Fund to $4,705,091 from $4,382,203 on March 31, 1953.

Net asset value per share increased to $12.40 on March 31, last, from $11.91 at the year-end.

The Fund's largest single common stock holding by industry, according to the report, was in natural gas utilities and accounted for 15.9% of net assets. Other common stock industry groups included: 12.0% of net assets in electric utilities; 7.7% in chemicals and drugs; 6.8% in metals and mining; 5.8% in merchandising; 5.0% in railroads: 5.0% in communications, and 4.9% in oils.

T. ROWE PRICE Growth Stock Fund, Inc., for the quarter ended March 31, 1954, reached a new all-time high in both net asset value per share and total net assets.

Total net assets increased to $2,676,472 on March 31, 1954, as compared with $1,928,591 for the same period of last year. Net asset value per share was $38.84 as compared with $33.10 one year earlier.

COMMONWEALTH Fund Plan A and Plan B (of Boston) reports net assets on March 31, 1954 at $14,097,406.00 as compared with $12,420,466.00 on Sept. 30, 1953.

Net asset value per unit on March 31, 1954 was $1.241+ and on Sept. 30, 1953 $1.139+.

MUTUAL ACCUMULATING Fund on March 31st reported total net assets of $3,207,059, an increase of 93.6% over the same time last year when net assets were $1,656,407. In the same period, net asset value per share increased from $3.60 to $3.98.

NEW HOLDINGS of Delaware Fund include Commercial Credit and C. I. T. Financial, the directors learned last week.

D. Moreau Barringer, in his directors' report, comments, "Despite the popular concept that these finance companies are entirely dependent upon the automobile business, it can be shown that their earnings have shown greater stability than have the numbers of cars produced, and their diversification into insurance and other operations has given them a broader base of earning power. They can be considered among the more stable items of the list, and, as such are attractive income producers."

DISTRIBUTORS GROUP, sponsors of Group Securities, Inc. has issued its first folder on The Capital Growth Fund, informally described in the accompanying letter as "The Mutual Fund with the Single Track Mind." This refers to the single purpose of the fund, which is investing for long term increase in market value.

Each of the 84 stocks in the fund's portfolio is described as a "businessman's investment." As an example, the holdings include six Canadian stocks in the oil and gas section believed to be unusually attractive at the time.

The fund's policy is believed to be unique in that it enjoys complete freedom of choice of investments for long-term growth. This policy is expected to have a

CLOSED-END NEWS

Total net assets of Carriers & General Corporation at March 31, 1954, wth securities valued at market quotations and before deduction of principal amount of outstanding debentures, were $11,726,340 (excluding unamortized debenture financing costs of $6,031). These compared with total net assets of $10,859,654 on Dec. 31, 1953. Net asset value of the common stock was $17.57 a share on March 31, 1954 compared with $16.02 a share on Dec. 31, 1953.

The asset coverage per $1,000 of debentures outstanding on March 31, 1954 (excluding unamortized debenture financing costs) amounted to $6,264. Interest and amortizaton requirements on debentures outstanding were earned 7.10 times during the first three months of 1954.

Net income applicable to common stock for the three months ended March 31, 1954 (exclusive of profits on sales of securities) was $86,962, compared with $96,724 for the three months ended March 31, 1953.

M. I. T. Gains $62.6 Million In Quarter

Massachusetts Investors Trust, the nation's first open-end investment company, reports a gain of $62,646,716 in total net assets from the 1953 year end to March 31, 1954 and record peaks in shares, shareholders and total net assets for the 1954 first quarter.

The trust had 27,388,794 shares outstanding, 115,570 shareholders and $585,015,114 in total net assets as of March 31. These figures compare with 25,642,948 shares, 102,321 shareholders and $503,024,510 in assets on March 31 last year.

The net asset value per share at the quarter's close was $21.36 not including a capital gain payment of 24 cents in February which would make the total $21.60, compared with a net value of $19.62 on March 31, 1953 and $19.53 at December 31, 1953.

Major portfolio changes for the first quarter of 1954 were as follows:

PURCHASES

Company	Bought
Aluminium Ltd.	11,500
Crown Zellerbach Corp.	15,000
Deere & Company	10,000
Diamond Alkali Co.	16,100
General Motors Corp.	13,500
No. American Aviation	25,000
Northern Natural Gas	10,000
Southern Calif. Edison Co.	14,000
United Aircraft Corp.	10,000

SALES

Company	Sold
Detroit Edison (Rights)	110,000
Grumman Aircraft Eng.	20,000
Middle So. Utilities, Inc.	14,700
Stevens (J. P.) & Co.	21,000

special appeal to periodic investors who seek to build capital.

WELLINGTON FUND Tuesday reported gross sales of $16,329,000 for the first quarter of 1954. A. J. Wilkins, Vice-President, said the total represented a 14% increase over the $14,384,000 in the final quarter of 1953.

Mr. Wilkins added that redemptions for the three months ended March 31, last, amounted to 21.7% of sales or 3.8% of total net assets. This rate, he noted, showed little change by comparison with the rate of redemptions throughout 1953, which was among the lowest in the industry.

PERSONAL PROGRESS

ROBERT H. NICHOLS, for the past nine years with J. C. Bradford & Company, has resigned as resident manager of the Atlanta office in order to join Investors Diversified Services, Inc., of Minneapolis. Mr. Nichols will be in charge of Invesors Diversified's municipal investments.

Mr. Nichols, at one time was president of his own investment firm, Nichols & Company, in Nashville. Before that, he was vice-president of W. N. Estes and Company, and was with Barcus, Kindred & Company.

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The Security I Like Best

ly to the food industry and some to industrial customers. The sales territory covers all states east of the Missouri River.

In the past two years, Allied Mills has spent $6.2 million, or 25% of June 30, 1953 gross plant of $25.1 million, on capital expenditures to increase its operating efficiency and widen its markets. The new modern livestock feed plant at Mason City, Iowa, which is located in an excellent livestock feeding area with good railroad facilities, was completed last September. In March, 1953, the expansion of the production and storage facilities at the Taylorville, Illinois, soybean processing plant was completed and placed in operation. The daily processing capacity at Taylorville was thereby increased from approximately 150 to over 500 tons, with a resultant lowering of operating costs and improvement of product.

It will be noted that operating profit margins in the 1952 and 1953 fiscal years were well below the ten-year average of 6.5% of net sales, although dollar sales volume reached a new high in 1952. In the 1953 fiscal year, although livestock feeds were off only 4% in physical volume, dollar sales were adversely affected by lower feed prices in line with a sharp drop in farm income and in the prices of grain and other feed ingredients. In addition, the profit margin on soybean conversion was abnormal due to a substantial fall in the prices of soybean meal and oil.

However, in the December, 1953, quarter, net income rose 75% to $655,000 (84c per share) from $380,000 (48c) in the like 1952 period. This marked turn for the better, which we understand is continuing, has been due chiefly to the following three factors:

(1) An increase in volume of feed sales.

(2) A greater stability of feed prices as compared with the declining price situation that prevailed in the previous year.

(3) Improved operating efficiency and economies resulting from the company's modernization program.

It is my understanding that earnings in the quarter ended March 31, 1954, which was generally a profitable one in the feed industry, will compare favorably with the 55c per share reported in the like period a year ago. The June quarter is normally the seasonally best period of the year. Even in below-average 1953 fiscal year, June quarter earnings reached $1.01 per common share. We feel that a conservative estimate of earnings for the fiscal year ending this June 30 is $3 50 a share v. $2.69 in the 1953 year.

In the 1948-1953 period, gross plant increased by $13.8 million, or 121%. Of this increase, $7.7 million was financed from a reduction in working capital and the balance from retained earnings and depreciation. With earnings on the uptrend and the postwar modernization and expansion program largely completed, the company's working capital position should show tangible improvement in the present fiscal year. Short-term bank loans were all liquidated in early September, 1953; currently, the company has some seasonal bank loans used to finance soybean purchases and inventories. However, it is expected that the June 30, 1954, balance sheet will show no short-term indebtedness. Inventory turn-over on the average is less than 60 days; thus eliminating the possibility of serious losses through inventory adjustments at any one time. Capital expenditures in 1954 should not exceed depreciation charges of approximately $1.2 million by more than $500,000.

Due to the absence of long-term debt or preferred stock and a characteristically strong working capital position, the dividend policy of Allied Mills has been a generous one over the years. On a fiscal year basis, the dividend pay-out averaged 74% in the 1949-1953 period. The desire to build up the company's working capital position will probably hold dividend payments to the present $2 annual rate, although an extra at the end of the fiscal year is a possibility. In each of the four years prior to 1953 an extra dividend was paid in June in addition to the $2 regular annual rate as follows: 1952 (25c), 1951 (75c), 1950 (50c), and 1949 (50c).

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Bullish Implications of Investor Skepticism

standing the recent bull swing of more than six months duration—there are at present no danger signals indicating overspeculation anywhere along the road. This does not mean that everyone will conduct himself circumspectly and that the boom can and will continue *ad infinitum*. As has inevitably happened before, there will come a time once again when all the old familiar red flags begin waving their warnings — brokers loans will go away up —new issues will be offered to the public and will be oversubscribed 10 to 30 times and immediately go to fancy premiums—everybody will make money easily, quickly and nonchalantly. Maybe the times change, but people never do. The faces may be different, but human nature remains the same. We seem to be entering one of those rare cyclical periods where genius is at a discount.

Now as to the probable end of this bullish atmosphere . . . it would be presumptuous to attempt predicting either a price level or time limit. The best advice is to go along with the swing—be on the lookout for the little red flags, as they are bound to make their appearance somewhere along the road of cumulative optimism. In the past never have we been bashful or hesitant in highlighting the danger signals as they gained prominence. We are proud to remember our forewarnings in 1929-1936 and 1946. We were not friendly to the market in 1951 but resumed optimism in the Fall of 1953 for reasons already stated. While one must expect interruptions from time to time, the main body of stocks still has some time and distance to go. Secondary and low priced groups soon should take hold, while the blue chips rest on their laurels.

For those who have great faith in the reappearance of booms and depressions in rhythmic succession, we mention some mighty important tops in speculative booms which seem to reoccur about every 28 years—1873—1901—1929—(1957)?

John F. Baker Joins Baker, Walsh Co.

CHICAGO, Ill.—John F. Baker has joined Baker, Walsh & Co., 29 South La Salle Street. Mr. Baker has been an officer of the Investors Telephone Company and the Kansas State Telephone Company.

Lawrence S. Arnold

Distinguished Mining Engineer and Investment Banker dies at the age of 73. Much sought after in later years for his respected business advice and because of his keen wit, Mr. Arnold humorously ascribed his success to his ability to condense long reports to one page, and then to condense the one page to one of two words, "Yes," or "No."

Funeral services will take place at 10:30 this morning in the chapel of St. James Church, Madison Avenue and 71st Street, New York City, for Lawrence Septimus Arnold, an English-born mining engineer and investment banker who made a distinguished career in both fields of endeavor in his adopted country, the United States. Mr. Arnold died last Monday morning in Doctors Hospital at the age of 73 following a massive cerebral hemorrhage which struck him the evening before.

Mr. Arnold, "Dean" of the Columbia University Club, 4 West 43rd Street, his home for the last 30 years, was born in Manchester, England, the seventh son of the founder of the Manchester investment banking firm, W. A. Arnold & Son. He was the brother of the late Lord Arnold, who, in 1924, was a member of the cabinet of Prime Minister Ramsay MacDonald.

Mr. Arnold came to the United States from England at the turn of the century, attending first the Colorado School of Mines, and then graduating in 1905 from the Columbia University School of Mines. He also attended Columbia Law School as a student in the class of 1912.

In New York's private club and banking circles, Mr. Arnold's company was much sought after by his friends and associates, not only for his respected advice and mature judgment on business and investment affairs, but also because of his reputation as *a raconteur* and keen-minded wit. It was to the amusement of many dinner companies that Mr. Arnold ascribed his phenomenal success, as a consulting engineer to governments and investment banking firms, to his ability to condense a long report to a short one, then, to condense a short report to one page; and, finally, to condense the one page to one of two words, "Yes," or "No." It was Mr. Arnold's humorous turn of mind that invented, and continually embroidered his mythical — and legendary — School of Humor which would accept social bores, Mr. Arnold's pet peeve, tuition-free.

Before his retirement from the ordinary aspect of business 20 years ago, Mr. Arnold was associated with BancAmerica, Blair & Company; Blair & Company; and with Henry Lockhart of the Goodrich Lockhart Company.

During World War I, he served the United States as a "dollar-a-year" man in Washington in charge of various phases of war production.

Mr. Arnold, a bachelor, was before his death the only survivor of his generation of the Arnold family of seven brothers and two sisters. He was an active member of the Columbia University Club, the Metropolitan Club, St. George's Society and the Pilgrims.

Charles W. Brown Joins White & Company

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, Mo. — Charles W. Brown has become associated with White & Company, Mississippi Valley Building, members of the Midwest Stock Exchange. Mr Brown was formerly with B. C. Morton & Co. and Slayton & Company, Inc. Prior thereto he was with Reynolds & Co. in Chicago and T. C. Henderson & Co. in Des Moines.

Thomson & McKinnon Add

(Special to THE FINANCIAL CHRONICLE)

CHARLOTTE, N. C. — Walter Myers has become affiliated with Thomson & McKinnon, Johnston Building.

With I. M. Simon Co.

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, Mo.—Alvin F. Hansen is now with I. M. Simon & Co., 315 North Fourth Street. He was previously with McCluney & Co.

With Ellis, Holyoke

(Special to THE FINANCIAL CHRONICLE)

LINCOLN, Neb. — Nelwyn B. Moran is now with Ellis, Holyoke & Co., 134 North Thirteenth Street.

Joins Central Republic

(Special to THE FINANCIAL CHRONICLE)

OMAHA, Neb.—Loren E. Brown is now with Central Republic Company, Omaha National Bank Building.

Continued from first page

The Outlook for Subscription Television

picture industry that would surely tax that industry's own superlatives.

But let me preface my attempt to answer these key questions by telling you the one thing I have learned for sure to date about subscription television. That thing is that one cannot deduce the economic or business significance of this idea by drawing easy analogies with existing industries or services.

Subscription television service will be the nearest thing to a brand new, unique, unprecedented and almost literally revolutionary economic function to enter the American economy in a long time. Because of this very uniqueness, and also because of the great new potentials involved here, ignorance of subscription TV's basic principles can lead to some business snap judgments in this field that could lose the snap-judgers their shirts.

As I shall indicate shortly, it is not enough merely to have a subscription TV system, because unless it meets certain complete standards you may end up with merely a new kind of a box office at the front door which makes it just that much easier for customers to go and come for free at a side door. That is hardly an improvement on the economics of the theatre business.

A Caution Against Snap Judgment

But, not to get ahead of my story, let me give you a more general example of what I mean when I caution against snap judgments about subscription TV economics. In the earliest days of TV, there was an offhand notion that television was simply a combination of radio and motion pictures. We drew all kinds of quick conclusions about television from what we previously knew about these two prior industries. There were quick predictions that TV would murder radio. Today there is not only far more radio, but also more well-sponsored murders—on both radio and TV.

Motion picture exhibitors are still afraid that TV will murder their business, and it has indeed manslaughtered a lot of it. It is hardly surprising that when one mentions subscription television to them, with its own box office right in the American living room they really tremble, or they roar with anxiety.

Very well, to illustrate quickly the great latitude for error of judgment inherent in the unique economics of subscription television, there is much evidence and sound logic upon which to expect that subscription television will **help** the motion picture industry, including its exhibition branch, in far greater proportion than so-called "free" sponsored television is now **hurting** it. In similar vein, there is sound justification for the expectation that the adding of subscription use to regular television service will help to make television a far more effective **advertising medium.**

Obviously such conclusions are not expected to be accepted on faith, so let me pose for you the economic premises which support them, and which will, I believe, be substantiated in fact by the advent of actual subscription TV service.

No matter what your own views on this new idea are at this stage of events, I am sure you will find your own analysis and conclusions facilitated if you will recognize subscription TV service first for what it **is** and secondly for what it **is not.**

The most accurate and meaningful economic definition of subscription television is, I believe, that **it is an instantaneous, electronic distribution service** which utilizes television to deliver a product from a seller to a buyer for a fee. It is therefore open to all of the potentials, and all of the limitations of the competition among goods in a free market.

Not a Substitute for Regular Television

Obviously, therefore, subscription television is not a "substitute" for regular television service. Equally obviously, it cannot sell anything in the way of a subscription program unless it is (a) better than or (b) different from any sponsored program. Recognition of these relationships quickly eliminates the basis of many offhand fears about subscription TV, such as that it is a scheme to charge the public for what they are now getting free. Actually it will save them time and money by delivering to their homes for nominal fees a lot of entertainment product they are now paying dearly to go out and get; and in the process it will make possible a great increase in so-called free, or sponsored, television service.

The Achilles heel of regular TV is that it has no intrinsic economics of its own. Therefore everything it does must be subsidized by some other economic function. So far advertising has given television its sole economic sustenance, with some very limited exceptions. I hardly think it necessary here to go into the enormous limitations that this circumstance has imposed on TV, because they are well known. At the same time I don't think it necessary here to elaborate the obvious fact that it is no reflection on advertising, nor a criticism of its essential economic function, merely because it cannot support all of the things that television could do, or that people want it to do. There is no reason why advertising should assume this heroic responsibility alone, any more than that the automobile companies should supply the buyers of their cars with free gasoline for the life of the car.

Personally, I am amazed that advertising economics has been able to underwrite as much television facilities and service as it has. It has not been easy, as the groans of advertisers attest, and the worst is not yet. Color television will indeed add a lot of color to TV's economics—especially red. But color TV will have no more economics of its own than has black-and-white TV.

Subscription television, by contrast, is not only a complete and instantaneous TV distribution system, but it also has its own built-in economic system. There are no subsidies, no indirect economic deals, no third-party patronage involved.

However, this distinct difference between the economic status of regular television and that of subscription television should not—as it frequently does—lead to the conclusion that they are antagonistic or—to use a TV term—"incompatible." On the contrary, it is the good fortune of both TV and subscription TV that they are highly complementary—or "compatible."

Regular Television Channels Can Be Used

In that regard, here is another point that merits great emphasis. Subscription television service does not require separate or additional television channels. It is conceived as an auxiliary service from regular TV stations, hence a means of giving all television a second, and major and direct means of economic support. This is one of the most significant aspects of subscription TV's economics.

In the first place, it will finally put TV on a really competitive basis with other principal advertising media. Newspapers, for example, derive about a nickel of revenue from subscribers for every dime of advertising revenue. TV must now send **all** of its bills to advertisers—and indeed about half its bills to less than 20 national advertisers.

Secondly, and of more importance to the economy and country as a whole, there is an obvious over-all limit to how many TV stations advertising revenue alone can support. On my calculations, that limit is somewhere around 500 stations. Yet there is spectrum space already allocated for over 2,000 TV stations.

Now, if we will allow all stations to utilize subscription telecasting to augment their advertising revenue, then I believe we can at least double the number of economically supportable stations. In particular, the smaller and scattered markets would improve their chances of obtaining TV service. So far barely a dozen of the FCC station allocations to towns of 10,000 or under have been applied for; and over 60 construction permits have been returned from larger, but still marginal, markets, because there was insufficient prospect of supporting them on advertising revenue alone.

So far, my remarks have all been addressed to the first of my three basic questions; namely, is there a need for such a service as subscription TV? There is more to be said on that point, but it will be more meaningful, by way of conclusion, after I have dealt with the other two questions.

Requirements of Practical Subscription TV

Now as to the requirements of a practical subscription TV system: As I imagine everyone here knows, all approaches to subscription TV so far publicly revealed have followed the principle of a scrambled signal to prevent non-paying customers from obtaining the program. Presumably any future service authorized by the FCC will be based on this principle.

Purely aside from whatever standards the FCC may impose on such a service, it will not be commercially effective unless it does the following things:

(1) It must operate within existing standards of TV transmission so that the millions of TV sets now in use can be easily and economically equipped to receive this additional service. As an additional factor here which is by no means minor, it should be possible to add the subscription unit to an existing set without altering the chassis wiring to the extent of invalidating the underwriter's guarantee. You can readily imagine what would happen to a company, set up to merchandise subscription television service, if it ignored too many of these little "horseshoe nail" details.

(2) A subscription system to be commercially effective must utilize a scrambling technique such that the **video** signal is rendered so unintelligible as to provide no satisfactory image to non-paying viewers. In addition, the **audio** signal must be scrambled or otherwise rendered unintelligible.

To give you an historical note on this, when Zenith started its now-famous 90-day test of Phonevision on New Year's Day 1951, in Chicago, they did not at first scramble the sound. To everybody's astonishment, spot checks quickly showed that people in as many as 12,000 Chicago homes every night were tolerating what was then thought to be an adequately-scrambled image, yet they were putting up with it and following the whole movie just by listening to the sound track!

As you can imagine, the movie people whose films were being used jumped on that situation, because they well know that, old silent films to the contrary, the sound track of a modern film is a vital ingredient. They don't mind if the screen of an outdoor movie can be seen from the road, as long as the **sound** can't be heard.

I will tell you more about the Chicago Phonevision test later, but I can assure you that it threw out the window many preconceptions about what constitutes an adequate subscription TV service and was well worth the $970,000 that Zenith spent on it. Needless to add, very few of the valuable findings from that test have been revealed in the highly generalized releases made to date. But to get on with our standards.

(3) Once you have both video and audio adequately, scrambled, then your system must be able to distribute the coded signal in a strictly controlled way so that non-paying customers cannot peak under your tent; nor can bootleggers devise ways of selling bargain gimmicks to break your code. It is also essential that customers not be able to trade code information among themselves.

(4) Finally, no matter how complex the code in use, the transmission must contain within itself no tags or clues to operations, ike a boxer's telegraphed punch. All such competitive systems, so far publicly demonstrated, suffer considerably from this shortcoming.

Some Relevant History

I need hardly add that meeting all these requirements simultaneously, effectively and economically, isn't easy. To illustrate, I will recount some relevant history.

The Zenith Radio Corporation, and in particular its President, Commander E. F. McDonald, Jr., set out as long ago as 1931 to devise an effective subscription TV service. Until 1948 they were not only pioneers, they were lonesome pioneers, hearing nothing in this field except the sound of kibitzers.

As of today, Zenith has spent many millions of dollars on its subscription TV research, but with no hindsight complaints. Because today the Zenith engineers—(and by the way, there are more than 30 graduate engineers and physicists, not including their assistants, exclusively devoted to Phonevision development — not counting 10 handpicked engineers from The Netherlands who are now on their way to this country to augment the present large Phonevision staff)—can show you more flavors of subscription TV than Howard Johnson can show you flavors of ice cream — literally. However, the Phonevision experts have become rather professionally choosy over time, and have narrowed their own favorite flavors of Phonevision down to about five varieties. Actually all five can be used separately or in concert, hence giving Phonevision a highly flexible and versatile set of characteristics.

As for scrambling up the signal —the Zenith systems can make an unholy mess of it. What is more, they can change the nature of the mess on an instant's notice —and indeed that is just what happens. Phonevision is not only coded, but its code is coded, and the whole business is what you might call "randomized." In the language of a cryptographer, Phonevision has about 5,000 different electronic symbols for any given letter of the alphabet. Altogether it has some 20,000 codes, and since each customer literally has his own code, the odds against two neighbors swapping useful information could be one chance in 10-followed-by 40-zeros.

Yet, in spite of this calibre of technical complexity, there are rumors that you can de-code Phonevision with an electric fan. I would say, offhand, that such a fan would be worth several thousand dollars.

And, speaking of dollars, it is not only essential to give a subscription TV system adequate security, but this must be done with an economical and efficient unit. Therefore, a great deal of the intensive work that Zenith has been doing over the years, and particularly in the later years, has been to perfect its various gadgets into designs and to standards that will make them commercially practical, not just "laboratory effective."

Now as to actual Phonevision techniques. They include card systems, coin systems, line systems, air-code systems, cash systems and credit systems in a great variety of combinations. (You might be interested, by the way, to know that shortly Zenith —in cooperation with WOR-TV — will be doing some practical field analysis work here in New York. This will not be another "public test" or demonstration, except that it will enable people like yourself with a professional or technical interest in subscription TV to see what constitutes a really practical scramble.)

As for the competitor systems, I do not propose to sell any fans nor to start any fresh rumors about how to sneak under the subscription tent. Suffice it to say that so far there have been no public demonstrations of competitor subscription television coding systems that have taken the Zenith engineers longer than 20 minutes to break. One such system, as demonstrated, used a simple code that repeats itself every eight "fields" and therefore permits only 16 different codes.

In this regard, Commander McDonald has had to restrain his technicians from temptations of partisan propaganda—one of whom was tempted to apply for a patent on a gimmicq which would readily de-code all such limited systems.

And, speaking of patents, Zenith now has 30 patents on its various systems and on certain basic subscription television operations. It also has 50 more patents in the works. And every one of its American patents in duplicated in all foreign countries where such patent coverage is desirable. It might also be relevant to add that negotiations with a number of foreign countries, with respect to their local application of Phonevision, are at such an advanced stage that there is some possibility that a working subscription TV service may be in use abroad before it is available in this country.

Subscription TV Potential

And speaking of economic matters relevant to the technology and standards I have been discussing—I am personally convinced as an economist that the potential new "industry" here—this electronic distribution system we are talking about—is no new novelty proposition. I firmly believe it will develop quickly to a level of generating annual business volume running well into the billions of dollars. I rest that expectation on such basic facts as this: There is now a relatively "home bound" audience among our maturing population — plus those that at any given time are infirm, indisposed, have an infant in the house or otherwise cannot or will not go out of their homes to become customers for spectator commodities—which exceeds in the aggregate the present motion picture theatre or spectator sport stadium audiences by far. These would be brand new customers for such products, purely aside from how much subscription TV might add to present consumption of movies, etc. among the present non-home bound market.

But to start from scratch to develop this new and unique—and enormous — market will be no penny-ante proposition. It will call for a lot of technological know-how; a vast amount of production and sales engineering; ample production facilities; a lot of merchandising skill, courage and imagination; and finally a barrel of risk money.

In this regard I don't think it too much of a commercial plug to observe that the Zenith Radio Corporation, in addition to its pioneering technical position with respect to subscription television, stacks up pretty well on these other requirements.

During 1953 Zenith had consolidated sales of $166,000,000, establishing an all-time company high, and exceeding the previous record year, 1952, by 21%. Cash and government securities at the year-end totaled $16,000,000 and amounted to 99% of total liabilities. Notwithstanding substantial expenditures, running into several millions of dollars for additions to the company's physical facilities, working capital was increased to more than $24,000,000. Consolidated net profits for 1953 were $11.44 per share. The Company has never hesitated to support its Phonevision project to the full extent of its resources, and is prepared to continue to do so. I doubt very much if, at this stage of the game, Commander McDonald intends to relinquish to anyone Zenith's position of leadership in the subscription television field.

As you may know, there is also in existence a separate company, known as TECO—the Television Entertainment Company, Inc. Since Zenith proposes to stick to its own last, the Teco company, under appropriate licensing arrangements, will be primarily responsible for developing the commercial and service side of Phonevision. Zenith, of course, will expand to meet the manufacturing and sales demands for sets capable of providing subscription service.

Teco is a going concern — and has been for five years. It has a million dollars in the bank, from sale of common stock, for what you might call "temporary incidentals." It is prepared to raise such additional capital as may be needed in the future. Every preparation has been made so that both Teco and Zenith will be ready to meet the challenge of developing the fullest potentials of this new industry, when and if the FCC approves the commercial use of subscription television.

A New Merchandizing Undertaking

I think it is also relevant to observe at this point that such a vast new merchandising undertaking, as will be represented by subscription television, will require the combined talents and know-how of many people and companies—such as present producers and exhibitors of motion pictures—in order to capitalize on its full potentials. I think, therefore, that many people now in various phases of the entertainment business all over the country, perhaps in cooperation with new local broadcasters and others, will find new economic opportunities in this situation.

Now, if I may take a few more moments of your time, I would like to conclude by returning to my first basic question; more exactly, I would like to offer you my own evaluation of the future of this revolutionary new service that television can now perform for us.

Obviously, all of these potentials must remain just that—potentials—until the Federal Communications Commission authorizes such subscription TV service. When that will happen, I can only guess; but that it will happen, I have no doubt. I merely base my expectation on these premises:

(1) This added use of TV would take nothing away from present television service. Indeed it would increase it. It will make more stations possible and will give more people more reasons to own and use TV receivers.

(2) Since people are not likely to buy more than one subscription program for every 10 or more sponsored shows they will watch, as now, the advertisers will get a 90% shot at the bigger audience and use of far more stations and hours. They may even get lower rates, since they will no longer have to fool all of TV's bills.

(3) The public has clearly indicated, whenever and wherever it has been asked, that it would like such service from TV. In Chicago the 300 test families bought nearly four times as much motion picture fare during the Phonevision test, as compared to their patronage of the same films in theatres. 100% of the test families said they would like the service permanently. Over 50,000 Chicago families volunteered for the test.

Even in the Los Angeles area, which is motion-picture-theatre-minded, surveys conducted for several years by Woodbury College have consistently shown an increasing public desire for subscription TV service at home.

(4) In the absence of the kind of additional economic support that subscription programming would bring, television's current economic and artistic problems continue to mount. Program costs go up and up. In 1949 I was practically laughed off Madison Avenue for using $50,000-per-hour as my highest figure for future network TV costs for time and talent for a 250-station network—all in color! Today that would be chicken feed. When color TV is really here, it won't be bird seed.

As I indicated earlier, over 60 construction permits for TV stations have already been returned to the FCC, because their holders saw no chance of making a go of it. Early next month there will be a Congressional hearing on what to do about the special problems of the UHF stations. A group of them have urgently petitioned the FCC to authorize subscription TV as one major answer.

(5) As for Hollywood, the producers—some privately, but many like Sam Goldwyn publicly—are convinced that a home TV box office will greatly increase the market for films. And as for the exhibitor end of the business — obviously the same film will not play the same market on subscription TV and in local theatres at the same time. Some observers feel that the ballyhoo of a subscription TV premiere of a new movie will not only build future theatre audiences, but also enable exhibitors to pre-test the market for the film. At the least, the vast new revenue to Hollywood should assure first a great new supply of films—of which now there is a shortage. But in addition, this added revenue should assure a bigger supply of costly super-colossal films — for all types of exhibition.

And finally — as any married man knows—sitting home watching television is no substitute for going out to the theatre, or anywhere else, as long as it is out of the house. Not even subscription television will change human nature. As I have already noted, however, there is an enormous "home bound" market for spectator-type entertainment and other cultural commodities, which for the first time will become a real market for such products, thanks to subscription TV service.

(6) As for the spectator sports people, they can't wait for subscription TV. They are among its most vocal advocates, and understandably so. They are not much happier than the public about "theatre Television" as a stop-gap substitute for a home TV box office. Yet theatre TV is now angling for the World Series. When that disappears from home television, there will really be a rhubarb in Brooklyn—and in 48 states besides!

When subscription TV is available, not only the World Series, but films like Gone With The Wind, Broadway plays like South Pacific—or courses in Sanskrit or anything that even a minority audience is willing to pay a nominal sum for, delivered to the viewer's home—will be available on television. And there will be a lot more television for it to be on.

And now, gentlemen, you have had it—the elementary introductory course in why we "ain't seen nothin' yet" about the true miracle of television —and won't see it all until TV gets an economic carburetor big enough to feed its technological horsepower.

Continued from page 10

Effects of Recent Monetary Policy

very high figures for May and June. In an effort to push the comparison one step further, therefore, yields in the latest month, March 1954, have been compared with those in January 1953, the first month included in the 6-month average used above. Comparable figures have been computed for each of the periods cited above. On this basis of comparison, the net decline in interest rates in the open market during the last 15 months loses completely its unprecedented character. The changes in both long-term rates and short-term rates have been at or close to the medians for the seven periods of declining rates. All the comparisons seem to indicate that movements of customers' rates have been sluggish in the recent period.

These comparisons are presented for what they are worth. They in no way qualify the fact that yields in the bond market have undergone exceptionally rapid movements, first up and then down, in the last 15 months. The general similarity with earlier experience seems to suggest, however, that forces more basic than the technical operations of the Open Market Committee may have contributed to the current ease in money rates.

There is one sense, however, in which the current condition of ease in the money market is unprecedented. Reference here is to the pervasiveness of ease—to its degree of penetration through the credit and capital markets. This reflects the huge volume of Federal debt created during the war, a debt that is widely held by banks, financial institutions, and larger business corporations. The proportion of assets held as secondary reserves in the form of short-term U. S. securities by banks, other financial institutions, and corporations tends to be much larger today than before the war. This means that the same degree of rise or fall in the yield on short-term Government securities exerts a much larger leverage on earnings than heretofore and thus tends to invoke a more positive response in operating decisions.

The increasing role played by the Government insured or guaranteed mortgage has also operated in the same direction. Before the war, the mortgage market was fairly well insulated from the open money market for long-term capital funds, and responded sluggishly to changes in yields and in the availability of funds in those markets. This insulation can still be detected today, but it is completely different in degree from that which prevailed before the war. The volume of Government insured and guaranteed mortgages in the capital markets is now very large. It constitutes one of the major sources of demand for new capital. The fact that risk exposure on these mortgages is limited has made it possible for the first time to create a secondary market for these very important financial investments. The degree to which insulation has broken down was first demonstrated conclusively during early 1953, when the availability of funds for insured and guaranteed mortgage financing at administratively determined rates tended to dry up rapidly when higher yields were available in the open securities market. It has subsequently been demonstrated that lower yields in the capital markets will be reflected rapidly in the availability of funds for insured and guaranteed mortgage financing.

Recent weeks have witnessed several other adjustments in the short-term money markets that are worth noting. All of them tend to break down or modify institutional frictions of long standing. Among these recent developments are the sharp increase in the resort by qualified borrowers to the open market for commercial paper when the prime loan rate became unattractive, the increased competition by money market banks for loans to dealers in U. S. securities, and the appearance of more competition in the acceptance market.

That economic stability cannot be achieved through monetary policy alone is obvious. That it is difficult, if not impossible, to maintain such stability in the absence of appropriate monetary policy is equally important to appreciate, though less obvious. Within the general limits of this statement of the problem, however, there is scope for widely differing judgments with respect to what contributions can and what contributions cannot legitimately be expected from reasonable administration of monetary responsibilities.

The impact of monetary policy on the economy is registered in the first instance through its effect (1) on the volume of money, (2) on the availability of credit, (3) on the cost of borrowing, and (4) on the capitalization in current dollar values of anticipated increments of future income. These four aspects are all interrelated, of course, but an examination of the role of each of them individually in relation to the current state of the economy may help to clarify judgments on the effectiveness of recent monetary operations in promoting economic stability.

(1) at the end of March 1954, the active money supply was almost the same in volume as one year earlier. The secular growth in the active money supply which characterized the preceding year began to taper off during and after the acute stringency that developed in the second quarter last year, and, despite the widespread ease that subsequently developed, secular growth in the active money supply has not yet been resumed. This is not out of line with earlier experience. So far as can be inferred from quite inadequate data, the active money supply probably decreased during the early stages of four of the six other recessions that this country has experienced since the first World War. In the very mild reaction of 1926-27, the active money supply apparently behaved much as it has during the past year. In the recession from 1923 to 1924, which in many other respects resembles the present one, the active money supply seems to have increased.

(2) It is difficult to find objective standards to define the availability of credit and almost impossible to isolate objective data to measure changes in availability. For present purposes, the availability of credit can be defined (a) in terms of the ability of lenders to advance additional amounts to prime credit risks, and (b) in terms of their willingness to do so with respect to marginal borrowers. On the basis of personal observation and recollection, and some study of past episodes, it is my own judgment that credit is more widely available in an absolute sense at the present time than it was in the comparable periods of most preceding periods of falling activity. Conditions in 1949 and possibly 1927 constitute exceptions to this generalization. In 1949, the fact that the Federal Reserve System was prepared to maintain pegs below which Government bonds would not be permitted to fall created a superabundance of credit availability.

(3) So far as the cost of borrowing is concerned, current levels of interest rates are low, though not so low to some borrowers as in 1938 or 1949. In few cases could they be called an obsolute deterrent to borrowing. The extent of their decline during recent months relative to earlier years of reaction has already been discussed.

(4) In addition to creating lower costs for borrowers, falling interest rates exert an effect on the economy through recapitalization, i. e., through raising the dollar value of existing capital assets, particularly long-term assets. This response is particularly rapid in the open security markets where rising prices for bonds and investment type stocks register the impact of falling interest rates. It is also, however, registered in some degree in other markets, such as the real estate market. Recapitalization has been a conspicuous feature of the current reaction, more important than usual because holdings of capital assets are larger and more widespread. To the extent that it has been reflected in an appreciation of investors' portfolios, recapitalization has liquified financial institutions and increased the proportion of their assets that can be disposed of at a profit. Similarly, the rise in stock prices has increased the ability and probably the willingness of investors to spend. Capital values do not seem to have risen in the real estate market. The capitalization factor, nevertheless, may have acted to cushion existing values from reacting more sharply to additional supplies growing out of the high levels of current construction activity.

Taken as a whole, in all four aspects, it appears that monetary policy has exerted a significant impact on the economy during the course of the present reaction. That it has not reversed the recession is clear from the most recent figures on output which, at this writing, are still tending downward, though at a less rapid rate It is significant, on the other hand, that those areas of the economy where prospects appear most firm are also those that are normally considered most quickly affected by changes in the cost and availability of funds. Housing, state and municipal public works, particularly highways, commercial construction and corporate investment are the areas of the economy that seem to promise the best performance during 1954. They are all dependent to an important degree on financing in the long-term money markets where monetary policy has had its most striking response.

Continued from page 5

The State of Trade and Industry

Aug. 22, 1953, with 155,722. Previous peak for this year was March 15-20 with 144,698 completions.

The statistical agency said the past week's upturn stemmed from increased scheduling at General Motors and Ford plus the return of Studebaker operations after a week-long shutdown.

It added, however, that one-week shutdowns began last Friday night for Hudson and Packard, continuing the off-again, on-again production pattern for the independent producers which is holding their April output to a 7½-year low point.

"Ward's" noted that General Motors Corp. is sparking the industry's half-million unit monthly production pace of cars and in April-June may run off with as high as 52% of industry automobile volume against 49.5% in January-March.

Chevrolet the past week hiked its car production 8% over the week before to 34,300 cars, a 43-week high. Ford, at the same time, programmed 30,100 assemblies, its second-highest level of this year.

The Ford effort required operations at seven plants last Saturday, while Chevrolet has started working upon a 40,000-unit increase recently installed for the second quarter, this trade weekly declared.

The reporting service said that Buick in the preceding week racked up an all-time, 50-year production high of 13,319 car completions and continued at that level last week, while Oldsmobile's schedule of 10,700 cars the past week also set a new record.

Cadillac, meantime, continues on 10-hour day car production, while Lincoln-Mercury assembly persists at the reduced level effective April 12. Chrysler Corp. car divisions remained on five-day schedules for the third straight week.

Steel Operations Scheduled at 68.4% of Capacity This Week

Possibly the hoped-for turn in the steel market is here, says "Steel," the weekly magazine of metalworking. But while some promising signs are visible on the economic horizon, mixed conditions cloud the immediate outlook. It is still too early for definite conclusions with favorable and unfavorable influences offsetting each other.

Developments generating optimism include consumption which exceeds steel production currently. Prompt shipment orders are more frequent, indicating advanced inventory liquidation and sales volume is up a bit, with demand a trifle more spirited. A seasonal upturn in wire, building items and tin plate is in evidence as well as a returning strength in scrap, traditional barometer for steel. An apparent leveling out of steel production around 70% of capacity is generally believed a profitable operating point for most producers, continues this trade weekly.

Less favorable signs are the uncertainty as to automotive requirements over the coming months and uncertainty stemming from sluggish sales of consumer durables at retail level. The uncertainty of consumers as regards stockpiling policy and that arising from the erratic course of manufacturing in some areas of steel consumption; uncertainty attending the approaching steel labor negotiations and the explosive international political situation, especially the Indo-China crisis, are also less favorable signs, observes this trade magazine.

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 68.4% of capacity for the week beginning April 26, 1954, equivalent to 1,632,000 tons of ingots and steel for castings, as against 1,636,000 tons nad 68.6% (actual) a week ago.

The industry's ingot production rate for the weeks in 1954 is now based on annual capacity of 124,330,410 tons as of Jan. 1, 1954.

For the like week a month ago the rate was 69.1% and production 1,648,000 tons. A year ago the actual weekly production was placed at 2,262,000 tons or 100.3%. The operating rate is not comparable because capacity was lower than capacity in 1954. The percentage figures for last year are based on annual capacity of 117,547,470 tons as of Jan. 1, 1953.

Electric Output Holds to Lower Trend

The amount of electric energy distributed by the electric light and power industry for the week ended Saturday, April 24, 1954, was estimated at 8,257,000,000 kwh., according to the Edison Electric Institute.

The current figure represents a decrease of 88,000,000 kwh. below the preceding week, but an increase of 241,000,000 kwh., or 3.0% over the comparable 1953 week and 1,122,000,000 kwh., over the like week in 1952.

Car Loadings Continue Mild Gain of Preceding Week

Loadings of revenue freight for the week ended April 17, 1954, increased 6,094 cars, or 1.0% above the preceding week, according to the Association of American Railroads.

Loadings totaled 612,884 cars, a decrease of 138,744 cars or 18.5% below the corresponding 1953 week, and a decrease of 122,185 cars or 16.6% below the corresponding week in 1952.

U. S. Auto Output Last Week Rose 5% to Attain 34-Week High

Automotive production for the latest week ended April 24, rose 5% to reach a 34-week high record. The previous peak for this year was for the period March 15-20, "Ward's Automotive Reports," states.

The industry, "Ward's" reports, assembled an estimated 123,594 cars last week, compared with 118,486 (revised) in the previous week. A year ago the weekly production was 151,394.

Last week, the agency reported there were 22,583 trucks made in this country, as against 21,138 (revised) in the previous week and 31,469 in the like 1953 week.

"Ward's" estimated Canadian plants turned out 8,580 cars and 2,082 trucks last week, against 7,159 cars and 1,776 trucks in the preceding week and 8,819 cars and 3,196 trucks in the comparable 1958 week.

Business Failures Rise Following a Three-Week Decline

Commercial and industrial failures increased to 229 in the week ended April 22 from 198 in the preceding week, Dun & Bradstreet, Inc., reports. Ending a three-week decline, this upturn lifted casualties considerably above a year ago when 159 occurred or 1952 when there were 168. However, mortality remained 28% below the pre-war level of 316 in the comparable week of 1939.

Failures involving liabilities of $5,000 or more rose to 190 from 168 last week and 132 a year ago. An increase also appeared among small casualties, those with liabilities under $5,000, which turned up to 39 from 30 in the previous week and exceeded the 27 of this size recorded in the similar week of 1953. Nineteen businesses failed with liabilities in excess of $100,000, as compared with 14 last week.

Wholesale Food Price Index Turned Higher In Latest Week

Reversing the downward trend of the previous two weeks, the Dun & Bradstreet wholesale food price index rose 6 cents last week to stand at $7.41 on April 20, only 1 cent below the all-time high of $7.42 recorded on March 30. The current figure compares with $6.38 on the corresponding date a year ago, or a gain of 16.1%.

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 Registers Mild Gains

A firmer trend in some of the major commodities resulted in a mild rise in the Dun & Bradstreet daily wholesale commodity price index the past week. The index finished at 277.82 on April 20, as compared with 276.53 a week previous, and with 278.49 on the corresponding date last year.

Grain markets were unsettled and erratic most of the week but turned upward in late dealings under brisk demand influenced largely by uneasiness over developments in Indo-China. Soybeans climbed to new five-year highs aided by light supplies and a firm undertone in oil and meal.

Wheat registered moderate advances after reaching new lows since 1950 at mid-week.

Early weakness reflected good rains in some sections of the Southwest but additional moisture is needed in many areas. The April report of the Crop Reporting Board forecast this year's production of Winter wheat at 678,000,000 bushels, as against 877,000,000 bushels last year. Corn rose in response to better demand coupled with light marketings. Purchases of grain and soybean futures on the Chicago Board of Trade last week averaged about 58,000,000 bushels per day, against 52,700,000 the previous week and 44,800,000 a year ago.

A further upward adjustment in roasted coffee prices at retail amounting to 4 cents a pound was announced by a leading chain store.

Cotton futures were irregular last week while spot prices remained steady as activity in spot markets continued to decline. Light to heavy rains were reported in many areas of the Southwest where drought conditions had been causing increasing concern. Loan repossessions during the week ended April 9 reached a total of 91,800 bales, the largest for any week this season, while entries continued in small volume.

Total loans outstanding on 1953-cotton crop as of April 9 were reported at 6,081,300 bales.

Daily average consumption of cotton during April, as estimated by the New York Cotton Exchange Service Bureau, was 33,400 bales, as against 34,800 in February, and 38,500 bales in March a year ago.

Trade Volume Last Week Shows Sharp Rise Over Preceding Week and Year Ago

The combination of Easter and warmer weather spurred retail trade throughout the country in the period ended on Wednesday of last week. Total dollar volume rose perceptibly over the previous week and markedly over the comparable week of a year ago. Despite some rainy weather most merchants reported total Easter-season sales generally equal to those of last year.

Buyers were reported responding to aggressive promotions of medium-priced goods.

The total dollar volume of retail trade in the week was estimated by Dun & Bradstreet, Inc., to be from 7 to 11% above the sales volume of a year ago. Regional estimates varied from the comparable 1953 levels by the following percentages: East +6 to +10; South +5 to +9; New England and Northwest +4 to +8; Southwest +6 to +10; Middle West and Pacific Coast +9 to +13.

Trading activity in many wholesale markets increased during the period ended on Wednesday of last week, but remained moderately below last year's level.

Most wholesale merchants were more confident about immediate market prospects than they were several weeks ago.

The greatest gains of the week were registered in apparel and food lines.

Department store sales on a country-wide basis as taken from the Federal Reserve Board's index for the week ended April 17, 1954 increased 12% above the level of the preceding week. In the previous week, April 10, 1954, an increase of 16% was reported from that of the similar week in 1953. For the four weeks ended April 17, 1954, no change was reported. For the period *Jan. 1 to April 17, 1954, department store sales registered a decrease of 3% below the corresponding period of 1953.

Retail trade volume in New York City last week (the post-Easter period) traditionally one of declining sales, found a good response to post-Easter promotions abetted by good weather early in the week.

According to the Federal Reserve Board's index department store sales in New York City for the weekly period ended April 17, 1954, registered an increase of 9% above the like period of last year. In the preceding week, April 10, 1954, an increase of 24% was reported from that of the similar week in 1953, while for the four weeks ended April 17, 1954, an increase of 4% was reported. For the period *Jan. 1 to April 17, 1954, no change was registered from that of the 1953 period.

* Comparison period begins with the Jan. 4-9 week in 1954 and with the Jan. 5-10 week in 1953.

I-T-E Circuit Breaker Preferred on Market

Public offering of 100,000 shares of 4.60%, $50 par value preferred stock of I-T-E Circuit Breaker Company was made on April 27 by an underwriting group headed jointly by Smith, Barney & Co and C. C. Collings & Co., Inc. The stock was priced at $50 a share plus accrued dividends.

The preferred stock, beginning on April 15, 1955, will have the benefit of an annual retirement fund consisting of (a) fixed payment based on 2% of the maximum number of shares issued and (b) $150,000, or an amount equal to 10% of the company's consolidated net income for the preceding fiscal year in excess of $1,000,000, whichever is smaller. The stock is initially callable for the retirement fund at $50.50 a share and at the option of the company at prices ranging from $52.25 to $51 per share.

The company, incorporated in 1939 as successor to a corporation founded in 1891, is engaged mainly in the manufacture of electric power equipment used in the transmission and distribution of electrical energy. Products include metalclad isolated phase bus structures, steel substation and disconnect switches, large and small circuit breakers, unit substations, mechanical rectifiers, insulators and fuses. It also fabricates stainless steel and aluminum subassemblies for jet engine installation and is active in the development and manufacture of radar antennae. Plants are located in Philadelphia, Pa.; Victor, N. Y.; Newburyport, Mass.; and Toronto, Can.

First Boston Group Offers Combustion Engineering Debens.

An issue of $15,000,000 Combustion Engineering, Inc. 3⅛% sinking fund debentures, maturing May 1, 1979, is being offered today (April 29) at 100% and accrued interest. The issue is being marketed by The First Boston Corp. and 13 other underwriters.

Proceeds from the financing will be applied to the prepayment of $10,000,000 in term notes due 1954-1959, incurred for plant expansion, and of $4,450,000 in short term bank loans outstanding under the company's regular line of credit. The balance of the proceeds will be added to general funds.

The new debentures are redeemable at optional prices ranging from 103⅛ during the twelve months beginning May 1, 1954 to 100 after April 30, 1978. Commencing in 1960, a sinking fund will be in operation calculated to retire 95% of the issue prior to maturity.

Originally organized in 1912 as Locomotive Superheater Co., the company adopted its present name in 1953. The company is one of the largest domestic manufacturers of large steam generating units. It is also one of the major domestic manufacturers of chemical recovery equipment for the pulp industry, of flash drying and incineration systems, and of certain types of fabricated products and steam locomotive equipment. Sales for the year 1953 totaled $170,675,000 and net income was $7,361,000. Backlog of orders on March 31, 1954 amounted to $156,300,000.

Joins Dempsey-Tegeler

(Special to The Financial Chronicle)

ST. LOUIS, Mo. — Donald I. Clugston and Dwight E. Key are now connected with Dempsey-Tegeler & Co., 407 North Eighth Street, members of the New York and Midwest Stock Exchanges.

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)	May 2	§68.4	*68.6	69.1	100.3
Equivalent to—					
Steel ingots and castings (net tons)	May 2	§1,632,000	*1,636,000	1,648,000	2,262,000
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output—daily average (bbls. of 42 gallons each)	Apr. 17	6,589,950	6,567,550	6,461,150	6,280,500
Crude runs to stills—daily average (bbls.)	Apr. 17	¶6,915,000	6,759,000	7,013,000	6,686,000
Gasoline output (bbls.)	Apr. 17	23,598,000	22,898,000	23,460,000	22,331,000
Kerosene output (bbls.)	Apr. 17	2,119,000	2,369,000	2,365,000	2,524,000
Distillate fuel oil output (bbls.)	Apr. 17	9,881,000	9,399,000	10,758,000	9,492,000
Residual fuel oil output (bbls.)	Apr. 17	8,454,000	8,451,000	8,399,000	8,701,000
Stocks at refineries, bulk terminals, in transit, in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Apr. 17	178,923,000	172,729,000	179,399,000	156,663,000
Kerosene (bbls.) at	Apr. 17	17,527,000	17,269,000	18,050,000	19,285,000
Distillate fuel oil (bbls.) at	Apr. 17	57,034,000	57,772,000	63,341,000	61,474,000
Residual fuel oil (bbls.) at	Apr. 17	43,265,000	43,833,000	44,507,000	39,855,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Apr. 17	612,884	606,790	609,959	751,628
Revenue freight received from connections (no. of cars)	Apr. 17	572,808	581,291	590,590	655,887
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Apr. 22	$247,952,000	$306,562,000	$283,564,000	$287,981,000
Private construction	Apr. 22	152,653,000	192,333,000	163,272,000	169,303,000
Public construction	Apr. 22	95,299,000	114,229,000	120,292,000	118,678,000
State and municipal	Apr. 22	75,933,000	92,817,000	99,031,000	92,980,000
Federal	Apr. 22	19,366,000	21,412,000	21,261,000	25,698,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Apr. 17	6,690,000	6,660,000	6,750,000	8,701,000
Pennsylvania anthracite (tons)	Apr. 17	479,000	501,000	510,000	439,000
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1947-49 AVERAGE = 100	Apr. 17	118	113	95	105
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Apr. 24	8,257,000	8,345,000	8,572,000	8,016,000
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET, INC.	Apr. 22	229	198	277	159
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Apr. 20	4.634c	4.634c	4.634c	4.376c
Pig iron (per gross ton)	Apr. 20	$56.59	$56.59	$56.59	$55.26
Scrap steel (per gross ton)	Apr. 20	$25.67	$25.17	$24.17	$41.00
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Apr. 21	29.700c	29.700c	29.675c	29.700c
Export refinery at	Apr. 21	29.625c	29.550c	29.125c	33.625c
Straits tin (New York) at	Apr. 21	93.250c	97.500c	94.500c	94.500c
Lead (New York) at	Apr. 21	14.000c	14.000c	13.000c	12.000c
Lead (St. Louis) at	Apr. 21	13.800c	13.800c	12.800c	11.800c
Zinc (East St. Louis) at	Apr. 21	10.250c	10.250c	9.750c	11.000c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Apr. 27	100.45	100.33	100.05	92.86
Average corporate	Apr. 27	110.70	110.88	110.88	105.00
Aaa	Apr. 27	115.63	116.02	116.02	108.16
Aa	Apr. 27	112.93	113.12	113.12	106.74
A	Apr. 27	110.34	110.34	110.34	104.66
Baa	Apr. 27	104.66	104.66	104.48	100.98
Railroad Group	Apr. 27	109.42	109.60	109.42	103.30
Public Utilities Group	Apr. 27	110.70	110.88	110.70	104.48
Industrials Group	Apr. 27	112.19	112.37	112.56	107.62
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Apr. 27	2.46	2.47	2.49	3.02
Average corporate	Apr. 27	3.13	3.12	3.12	3.45
Aaa	Apr. 27	2.87	2.85	2.85	3.27
Aa	Apr. 27	3.01	3.00	3.00	3.35
A	Apr. 27	3.15	3.15	3.15	3.47
Baa	Apr. 27	3.47	3.47	3.48	3.69
Railroad Group	Apr. 27	3.20	3.19	3.20	3.55
Public Utilities Group	Apr. 27	3.13	3.12	3.13	3.48
Industrials Group	Apr. 27	3.05	3.04	3.03	3.30
MOODY'S COMMODITY INDEX	Apr. 27	440.9	440.0	436.5	422.2
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Apr. 17	209,612	229,743	211,100	223,515
Production (tons)	Apr. 17	242,332	242,573	245,325	255,496
Percentage of activity	Apr. 17	91	89	92	96
Unfilled orders (tons) at end of period	Apr. 17	378,774	413,245	375,158	523,178
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1949 AVERAGE = 100	Apr. 23	109.50	109.16	108.03	106.64
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 shares	Apr. 10	999,957	980,698	905,313	1,109,442
Dollar value	Apr. 10	$45,365,898	$39,653,869	$40,655,258	$42,645,270
Odd-lot purchases by dealers (customers' sales)† —					
Number of shares—Total sales	Apr. 10	1,005,027	1,001,471	977,923	1,021,506
Customers' short sales	Apr. 10	6,306	9,234	7,792	9,870
Customers' other sales	Apr. 10	998,721	992,237	970,131	1,011,636
Dollar value	Apr. 10	$42,782,365	$42,527,514	$41,514,314	$38,154,956
Round-lot sales by dealers—					
Number of shares—Total sales	Apr. 10	316,220	309,150	332,440	294,980
Short sales	Apr. 10	------	------	------	------
Other sales	Apr. 10	316,220	309,150	332,440	294,980
Round-lot purchases by dealers—					
Number of shares	Apr. 10	316,910	316,560	256,550	364,500
TOTAL ROUND-LOT STOCK SALES ON THE N. Y. STOCK EXCHANGE AND ROUND-LOT STOCK TRANSACTIONS FOR ACCOUNT OF MEMBERS (SHARES):					
Total Round-lot sales—					
Short sales	Apr. 3	456,670	315,520	424,290	305,510
Other sales	Apr. 3	10,772,160	9,272,880	10,113,300	10,070,000
Total sales	Apr. 3	11,228,830	9,588,400	10,537,590	10,375,510
ROUND-LOT TRANSACTIONS FOR ACCOUNT OF MEMBERS, EXCEPT ODD-LOT DEALERS AND SPECIALISTS:					
Transactions of specialists in stocks in which registered—					
Total purchases	Apr. 3	1,158,290	1,055,270	1,075,860	1,201,050
Short sales	Apr. 3	249,650	156,820	215,930	131,920
Other sales	Apr. 3	896,940	959,280	874,860	978,440
Total sales	Apr. 3	1,146,590	1,116,100	1,090,790	1,110,360
Other transactions initiated on the floor—					
Total purchases	Apr. 3	395,790	343,730	373,000	349,700
Short sales	Apr. 3	30,600	18,900	22,500	25,100
Other sales	Apr. 3	342,550	344,000	346,900	333,200
Total sales	Apr. 3	373,150	362,900	369,400	358,300
Other transactions initiated off the floor—					
Total purchases	Apr. 3	371,830	328,394	457,126	329,240
Short sales	Apr. 3	33,850	23,510	41,000	35,040
Other sales	Apr. 3	520,598	328,400	377,675	337,700
Total sales	Apr. 3	554,448	351,910	418,675	372,740
Total round-lot transactions for account of members—					
Total purchases	Apr. 3	1,925,910	1,727,394	1,905,986	1,879,990
Short sales	Apr. 3	314,100	199,230	279,430	192,060
Other sales	Apr. 3	1,760,088	1,631,680	1,599,435	1,649,340
Total sales	Apr. 3	2,074,188	1,830,910	1,878,865	1,841,400
WHOLESALE PRICES, NEW SERIES — U. S. DEPT. OF LABOR — (1947-49 = 100):					
Commodity Group—					
All commodities	Apr. 20	111.3	111.0	110.8	109.7
Farm products	Apr. 20	101.1	100.3	99.6	98.6
Processed foods	Apr. 20	105.6	105.2	104.8	104.3
Meats	Apr. 20	95.8	93.9	92.4	91.1
All commodities other than farm and foods	Apr. 20	114.6	114.5	114.4	113.2

*Revised figure. ¶Includes 527,000 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.
†Number of orders not reported since introduction of Monthly Investment Plan.

	Latest Month	Previous Month	Year Ago
BUSINESS INVENTORIES — DEPT. OF COMMERCE NEW SERIES—Month of February (millions of dollars):			
Manufacturing	$46,069	*$46,388	$44,581
Wholesale	11,850	*11,783	11,405
Retail	22,421	*22,521	21,707
Total	$80,340	*$80,692	$77,693
COMMERCIAL PAPER OUTSTANDING—FEDERAL RESERVE BANK OF NEW YORK—As of March 31 (000's omitted)	$720,000	$701,000	$507,000
DEPARTMENT STORE SALES—SECOND FEDERAL RESERVE DISTRICT, FEDERAL RESERVE BANK OF N. Y. — 1947-1949 Average=100—Month of March:			
Sales (average monthly), unadjusted	90	75	95
Sales (average daily), unadjusted	85	83	93
Sales (average daily), seasonally adjusted	99	102	*102
Stocks, unadjusted	116	104	117
Stocks, seasonally adjusted	111	107	112
GAS APPLIANCE MANUFACTURERS ASSOCIATION—Month of March:			
Automatic gas water heater shipments (units)	188,900	*175,000	203,000
Domestic gas range shipments (units)	177,800	146,600	208,200
LIFE INSURANCE—BENEFIT PAYMENTS TO POLICYHOLDERS — INSTITUTE OF LIFE INSURANCE—Month of February:			
Death benefits	$163,906,000	$172,796,000	$158,593,000
Matured endowments	40,856,000	50,744,000	37,059,000
Disability payments	8,573,000	10,242,000	8,362,000
Annuity payments	35,062,000	49,115,000	32,946,000
Surrender values	62,825,000	65,474,000	49,000,000
Policy dividends	63,686,000	89,160,000	57,783,000
Total	$374,908,000	$437,531,000	$343,743,000
LIFE INSURANCE PURCHASES — INSTITUTE OF LIFE INSURANCE — Month of Feb. (000's omitted):			
Ordinary	$1,810,000	$1,712,000	$1,713,000
Industrial	537,000	432,000	534,000
Group	437,000	450,000	427,000
Total	$2,784,000	$2,594,000	$2,674,000
MANUFACTURERS' INVENTORIES & SALES (DEPT. OF COMMERCE) NEW SERIES—Month of February (millions of dollars):			
Inventories—			
Durables	$26,132	*$26,526	$24,760
Nondurables	19,937	*19,862	19,821
Total	$46,069	*$46,388	$44,581
Sales	23,643	*23,864	24,724
METAL OUTPUT (BUREAU OF MINES)—Month of February:			
Mine production of recoverable metals in the United States and Alaska:			
Gold (in fine ounces)	131,887	139,000	130,632
Silver (in fine ounces)	2,913,633	2,944,074	2,948,720
Zinc (in short tons)	37,232	38,852	49,506
MONEY IN CIRCULATION—TREASURY DEPT.—As of Feb. 26 (000's omitted)	$29,904,000	$29,981,000	$29,793,000
PERSONAL INCOME IN THE UNITED STATES (DEPARTMENT OF COMMERCE)—Month of February (in billions):			
Total personal income	$282.9	*$283.7	$281.0
Wage and salary, receipts, total	194.7	*195.7	194.6
Total employer disbursements	190.2	*191.2	190.9
Commodity producing industries	84.7	*85.4	88.0
Distributing industries	52.5	*52.6	50.6
Service industries	24.1	*24.1	22.8
Government	33.4	*33.6	33.2
Less employee contributions for socal insurance	4.8	*4.8	3.9
Other labor income	5.1	5.1	5.1
Proprietors and rental income	49.8	50.0	50.2
Personal interest income and dividends	23.1	*23.0	21.7
Total transfer payments	15.0	*14.7	13.3
Total nonagricultural income	265.8	*266.4	263.3
PRICES RECEIVED BY FARMERS — INDEX NUMBER — U. S. DEPT. OF AGRICULTURE — September, 1909-July, 1951 = 100—As of Feb. 15:			
Unadjusted—			
All farm products	258	259	264
Crops	237	240	249
Food grain	236	233	241
Feed grain and hay	208	207	214
Tobacco	443	420	424
Cotton	258	254	256
Fruit	210	222	203
Truck crops	233	271	275
Oil-bearing crops	269	268	287
Livestock and products	277	277	277
Meat animals	315	309	305
Dairy products	267	274	284
Poultry eggs	208	213	206
REAL ESTATE FINANCING IN NONFARM AREAS OF U. S. — HOME LOAN BANK BOARD—Month of Feb. (000's omitted):			
Savings and loan associations	$517,138	$467,219	$503,119
Insurance companies	104,813	107,717	109,638
Bank and trust companies	274,350	262,978	268,935
Mutual savings banks	84,553	84,815	84,268
Individuals	208,470	211,986	206,550
Miscellaneous lending institutions	235,869	237,527	218,693
Total	$1,425,193	$1,372,242	$1,391,203
SELECTED INCOME ITEMS OF U. S. CLASS I RYS. (Interstate Commerce Commission)—Month of December:			
Net railway operating income	$77,917,054	$78,526,182	$109,452,508
Other income	65,218,964	21,088,581	66,718,101
Total income	143,136,018	99,614,763	176,170,609
Miscellaneous deductons from income	18,953,360	4,089,491	6,369,533
Income available for fixed charges	124,182,658	95,525,272	169,801,076
Income after fixed charges	89,659,644	61,863,458	136,250,846
Other deductions	17,551,304	2,903,355	16,965,588
Net income	72,108,340	58,960,103	119,285,258
Depreciation (way & structure & equipment)	43,490,236	43,002,520	41,978,268
Federal income taxes	Cr28,699,075	24,440,232	44,979,099
Dividend appropriations:			
On common stock	58,454,911	61,296,222	28,055,769
On preferred stock	5,360,831	7,456,710	6,171,794
Ratio of income to fixed charges	3.60	2.84	5.06
WINTER WHEAT AND RYE—U. S. DEPT. OF AGRICULTURE—As of April 1, 1953:			
Winter wheat—Production (000's omitted)	677,981	------	877,511
Rye—Condition	82%	------	82%

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Raising Our Economic Sights

plan to do—even what we say we plan to do—are forces that shape the destiny of mankind. It is hard for us to realize that we no longer have a choice as to whether or not we are going to lead the free world in its struggle against Communist aggression. It is hard for us to realize that we no longer have the choice of waiting until an enemy has made its first hostile gesture in our direction before we mobilize our defenses. It is a long time since either you or I heard anyone debate the pros and cons of maintaining a standing military force in time of peace. It is hardly likely that any of us in this room will live to see the time when it is not necessary to maintain at all times an army, a navy, an air force, and all the incredibly complex and expensive industrial facilities that back up a modern military organization.

If we live in an age when powerful forces threaten the very existence of freedom and require vigilant nations to remain strongly armed, we also live in an age of unlimited opportunity for constructive international leadership in the arts of peace. No one nation has ever produced so many of the goods and the techniques needed by the others. If we have built weapons of unbelivable destructive power, we have also built machines and developed processes which can bring health and well-being to many parts of the world, and which can serve as the most potent weapon of all in winning and keeping loyalties of nations.

Our Faith in the Future

So far, in talking about ways in which our age is different from other ages in history, I have mentioned our ability to create more and more things—to produce the tangible elements of modern civilization and safeguard it against attack. But I think one of the most important characteristics of our time is a priceless intangible. It is our faith in the future—our belief—which we take for granted—that the dreams of today are only a rough sketch of the realities of tomorrow.

As a concrete illustration of this faith in operation, consider the reactions of businessmen to the period of economic adjustment that we have experienced in the past few months. There was a time when the amount of bearish talk we have heard in recent months would have been enough to send the economy into a tailspin. All bets about the future would have been called off. Plans for business expansion would have been canceled. But what do we actually find today? Business is confident. It is looking beyond the adjustments of the present to long-range prosperity. Total business investment in plant and equipment in 1954 is scheduled to run well over $27 billion—which is only a shade below last year's record-breaking total. And according to a recent survey by McGraw-Hill, investment by manufacturers in plant and equipment is expected to reach or rise above the 1953 level. Business is laying its dollars on the line in full confidence that the underlying trend of the economy is up.

It is not only the businessman who has voted his confidence in the future. People in general have refused to be panicked. They are spending nearly as much for goods and services as they did at the peak of the boom last year. In most parts of the country, investment in homes promises to be almost as great in 1954 as it was in 1953. In this State, and especially in this Los Angeles area, I am told that the construction boom is going strong with no end in sight.

Why do the American people act with such assurance about the future? Why do they refuse to let anyone sell them on the idea that good times are over and bad times are on the way? I believe it is because they know that the progress of the past can be a preparation for a more rewarding future. They know that what we have already accomplished has created a vast range of new needs—and as far ahead as any of us can see, we are going to be busy filling those needs. Far from having come to the end of a period of growth and expansion, we have only started to realize the potentialities of our economic strength. We have only begun to explore the possibilities of the good life in America.

Spread Out of Metropolitan Areas

All of you know from your experience in this Los Angeles area how progress has encouraged you constantly to raise your estimates of your needs. In five decades your population has been multiplied nearly 27 times. No other city in America can show a growth approaching this record. This growth would not have been possible if you had not provided for it by constantly raising your sights in order to hit more distant targets.

People in all parts of the country have watched the phenomenal growth of this community. They have watched you spread out into a metropolitan area surpassing in square mileage that of any other major American city — an area very nearly the size of the entire state of Connecticut.

In your process of growing you have contributed in a large way to the creation of a new pattern of living. Here, as in other great metropolitan areas of the United States, the suburbs have been growing faster than the central city. The population of Greater Los Angeles as a whole is now well over twice the population of the city proper. The modern trend toward suburban living, a trend which is particularly pronounced in this part of the country, is one of the most exciting phenomena in the history of civilization. What it means is that we in America have found a way to live in the open countryside or in a small town and also profit from the business and professional opportunities and enjoy the conveniences and the infinite variety of products and activities to be found in a big city. It is our way of having our cake and eating it too.

Along with the development of this dual pattern of living we have created a whole series of new opportunities and new needs.

Los Angeles has made large investments to build dams and throw m a m m o t h pipes over mountains and deserts to provide sufficient water for its expanded community. This matter of water supply is a familiar problem which is facing many cities in our country. And there are other similar needs, which may require sizable investments.

Many metropolitan areas are years behind in building the expanding spiderweb of water and sewer mains to serve the suburbs. The problem of building and staffing adequate schools is a coast-to-coast challenge. Roads, streets and sidewalks, playgrounds and swimming pools and community centers — these and many other needs must be met. And meeting these needs is not just a matter of drawing blueprints, assessing taxes, and finding contractors. If often involves tough decisions on planning and zoning, decisions on what should be built first and how a community's projects should be financed. These are problems for alert and active citizens to solve through study, discussion and cooperative action. This is the kind of activity that can provide satisfaction to individual Americans who want to take a hand personally in building a great new civilization.

In the excitement we share in seeing our cities expand in great arcs into the surrounding countryside, we have not forgotten the health of the central city. It is the city, after all, that usually gives the suburb a reason for being. One of the most important developments of recent years is the rediscovery of the value of the central city. People are finding out that no matter how many supermarkets and shops they have in the suburbs, or how enthusiastic a suburban community may be in supporting cultural activities, there is no substitute for the great variety of stores, the medical clinics, the wide range of professional and business services, the metropolitan libraries, the symphony orchestras, the museums and the theatres of a large city. People are also beginning to realize that these advantages cannot be preserved automatically. The continued health and prosperity of any great city requires constant attention and care—and once in a while a major operation.

Building Expressways

In bringing about the balanced, healthy growth of a city and its suburbs, adequate transportation is vital. Los Angeles has clearly recognized this. What you have accomplished — as well as what you aim to accomplish in this respect—has inspired other great cities to do likewise. The expressways built here and those now being built in Pittsburgh and Detroit, to mention only three striking examples, are among the most fascinating structures of our time. For all of the American people they hold out a real promise of a better and safer way of city living.

Building expressways—or freeways, as you call them here—is only part of the great task of road building that lies before us. The nation's system of roads and highways is sadly out of date. Bringing it up to date—making it safer and more efficient—is a task that will require at least 15 years to accomplish even if we spend a minimum of $7 billion a year to do the job.

Seven billion dollars a year sounds like a lot of money. It is a lot of money. But when you break that sum down into the amounts required for your own local programs, and then find out how little it costs you as an individual driver in California to pay for the world's best system of roads and highways—the whole matter takes on a different look.

In the postwar era of highway planning and building, California was the first state in the union to draw up a comprehensive, long-range, state-wide highway program. This program calls for the construction of over 12,000 miles of new and rebuilt roads in the next 15 years, at a cost of nearly $3½ billion. This is what I call investing in America's future—and doing it in the grand style.

What is just as interesting as the breath-taking scope and over-all dollar cost of this investment is the fact that it is going to be paid off by user taxes, and at an average cost of about $1 per month per motorist. California seems to have found a way to buy one very important ingredient of modern civilization at bargain rates. This is a fine example of the great benefits to be obtained from cooperative, forward-looking thought and action by the people of a community.

Americans know a good buy when they see one. They know that investing in good roads is one of the surest ways of helping themselves. Better roads open up new opportunities for agriculture and industry. They enable people to stretch out their horizons. They bring all parts of this country within easy reach. They make driving safer and more pleasant. They prepare the nation to mobilize quickly in time of emergency —and to disperse key industrial instalations more easily as a deterrent to enemy attack.

Yesterday President Eisenhower signed a highway bill which appropriates an amount far greater than that provided by any previous Federal highway legislation. This legislation is a step forward. It will give state and local communities an added incentive for pushing ahead with their own modern highway programs. But it is well to remember that important as Federal leadership is in the building of better highways, the main responsibility for planning and executing highways programs is a local responsibilty. People in all parts of the country have begun to understand the dimensions of their need and the nation's need for better roads—and as Californians know so well, people will support a very ambitious highway program if they know it is soundly conceived.

I have spoken today of a few of the needs and opportunities of present-day America—a few of the innumerable ways in which we can build an ever greater and finer civilization. The only real limitation on our future is the size and scope of our ideas, and the strength of our will to carry out those ideas. We have the talents, the resources, the knowledge, the techniques to make of this country what we determine to make of it. The size of the investment in America's future will depend upon how high we the people of America decide to set our sights.

Continued from page 5

Germany—Then and Now

time any tendencies to depression which may spread from the United States. Thanks to these solid and firm conditions, the dislike of any "radical" line of politics is probably as great now in Western Germany as ever before. This was confirmed by the 1953 election to the Bundestag (Lower House), on the 4th March, 1954.

The Stimulant of Foreign Aid

Thus the ground work for that great fillip of foreign aid has been laid, and the apparent miracle of West German recovery has followed. Production in the Federal Republic, which in 1948 was less than two-thirds of the 1936 average, had risen in 1950 by roughly 14%, and in the following years by 36% above the prewar level. In 1952 it was 45% higher than before the war.

Such a great and rapid expansion, giving employment to three million more workers than were employed in West Germany before the war, was contingent on correspondingly large imports.

In 1947, the year before the currency reform, total imports into West Germany amounted to barely $850 million, while the small trickle of exports hardly exceeded $300 million. As early as 1948, the year in which American supplies reached their highest level, it was possible to double the value of imports as well as exports, the latter jumping to almost 43½% in 1951. A further increase is expected, necessary to offset the d i s a p p e a r a n c e of the former trade between West and East Germany, which once amounted to a billion dollars in each direction.

Worrisome Factors

But along with the justified optimism, it must be realized that there are some flies-in-the-ointment.

Despite the large-scale modernization investments, more than 30% of all machine tools in West German industrial establishments are over 20 years old and therefore are in urgent need of replacement.

The country still has no capital market.

Foreign trade is not yet definitely stabilized on a sufficiently high level. West Germany's share in world trade is even now scarcely half of what it was in the prewar years. And her exports, as those to South America, are highly vulnerable to possible depression hitting those customers.

Imports, likewise, are only 57% of prewar. And there are the disproportionately high imports from the dollar area related to exports there, resulting in an adverse balance, and a dollar gap.

* * *

But the break with the earlier period undoubtedly is complete, enabling the Germans now to compete freely in the reconstruction of a competitive economy able to stand on its own feet without foreign subsidy. Although Germany's trees may not grow to reach the sky, she should in this era at the least be meeting her obligations.

The author gratefully acknowledges the cooperation generously rendered by Managing Director Heinzelmann and Economist Stutzel in checking the foregoing facts, particularly those pertaining to the "Dawes period."

NSTA Notes

SECURITY TRADERS ASSOCIATION OF NEW YORK

Security Traders Association of New York, Inc. (STANY) Bowling League standing as of April 22, 1954 is as follows:

Team:	Points:
Burian (Capt.), Gavin, Clemence, Montanye, Whiting	41
Donadio (Capt.), Craig, Gronick, Bies, Demaye	40
Leone (Capt.), Nieman, Gannon, Tisch, Greenberg	39½
Manson (Capt.), Jacobs, Topol, Weissman, H. Frankel	37½
Klein (Capt.), Fredericks, Murphy, Weseman, Mewing	37
Serlen (Capt.), Rogers, Gold, Krumholz, Gersten	36½
Kaiser (Capt.), Hunt, Werkmeister, Swenson, Ghegan	34½
Krisam (Capt.), Pollack, Cohen, Smith, Strauss, Define	30
Bean (Capt.), Bass, Valentine, Eiger, Bradley	29
Growney (Capt.), Corby, Siegel, Voccolli, Lienhardt	25½
Meyer (Capt.), M. Meyer, Frankel, Wechsler, King	20½
Hunter (Capt.), Brown, Alexander, Farrell, Barker	19

200 Point Club

Bob Topol	231
Roy Klein	213
Walt Bradley	202
Joe Craig	200

5 Point Club

Art Burian

Securities Now in Registration

★ INDICATES ADDITIONS SINCE PREVIOUS ISSUE
● ITEMS REVISED

Acme Industries, Inc., Jackson, Mich. (5/3)
April 12 filed 50,000 shares of common stock (par $1). **Price**—To be supplied by amendment. **Proceeds**—For general corporate purposes. **Underwriter**—Baker, Simonds & Co., Detroit, Mich.

Allis-Chalmers Mfg. Co. (5/12)
April 16 filed 350,000 shares of cumulative convertible preferred stock (par $100, expected to carry a dividend rate between 3¾% and 4¼%). **Price**—To be supplied by amendment. **Proceeds**—From sale of stock, together with proceeds from sale of $24,000,000 of 3⅝% notes to insurance firms, to repay bank loans. **Underwriter**—Blyth & Co., Inc., New York and San Francisco.

American Coffee-Matic Corp., N. Y.
March 22 (letter of notification) 300,000 shares of common stock (par 10 cents). **Price**—$1 per share. **Proceeds**—For working capital, etc. **Office**—20 Broad St., New York, N. Y. **Underwriter**—Mid-West Securities, 164 Congress St., Brooklyn, N. Y.

American Transportation Insurance Co., Kansas City, Mo.
March 17 filed 20,000 shares of capital stock (par $100). **Price**—$150 per share. **Proceeds** — To increase capital and surplus. **Underwriter**—None.

★ Applied Research Laboratories, Glendale, Calif.
April 22 (letter of notification) 10,954 shares of capital stock (par $1) and 73 shares of class B stock (par $1), to be offered pursuant to stock options. **Price**—$8.55 per share. **Proceeds**—For working capital. **Office**—3717 Park Place, Glendale, Calif. **Underwriter**—None.

★ Arcturus Electronics, Inc.
April 22 (letter of notification) 125,000 shares of class A common stock (par one cent). **Price**—At market. The underwriter has agreed to purchase these shares at 15 cents per share. **Proceeds**—To Delbert E. Replogle, President. **Underwriter**—Gearhart & Otis, Inc., New York.

★ Atriminas, Inc., Reno, Nev.
April 26 (letter of notification) 55,700 shares of common stock (par 25 cents) and 55,700 shares of preferred stock (par 75 cents) to be offered in units of one share of each class of stock. **Price**—$1 per unit. **Proceeds**—For equipment and working capital. **Office**—205 N. Virginia St., Reno, Nev. **Underwriter**—None. The above shares have already been sold. This is an offer of rescission.

★ Auto-Bye Co., Los Angeles, Calif.
April 20 (letter of notification) 30,000 shares of common stock. **Price**—At par ($10 per share). **Office**—2155 E. Seventh Street, Los Angeles, Calif. **Underwriter**—None.

★ Barber's Super Markets, Inc., Albuquerque, N. Mex.
April 22 (letter of notification) 6,007 shares of common stock to be offered for subscription by stockholders. **Price**—At par ($10 per share). **Proceeds**—For expansion. **Office**—315 Fourth Street, S. W., Albuquerque, N. Mex. **Underwriter**—None.

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.

● Big Horn-Powder River Corp.
April 2 (letter of notification) 280,000 shares of common stock (par 10 cents) being offered to stockholders of record March 31, 1954, on a basis of one new share for each 20 shares held; rights to expire on April 30. **Price**—60 cents per share. **Proceeds**—To retire debt and for working capital. **Office**—930-17th St., Denver, Colo. **Underwriter**—None.

★ British Industries Corp.
April 23 (letter of notification) 3,750 shares of capital stock. **Price**—At market ($2 net to seller). **Proceeds**—To Kay L. Rockey, the selling stockholder. **Underwriter**—Stubner & Co., New York.

★ Budget Funding Corp. (Del.)
April 20 (letter of notification) 149,850 shares of 7% cumulative preferred stock. **Price**—At par ($2 per share). **Proceeds**—For working capital. **Office**—167-10 Hillside Avenue, Jamaica, L. I., N. Y. **Underwriter**—Inter-City Securities Corp., Jamaica, L. I., N. Y.

★ California Electric Power Co. (5/19)
April 22 filed 105,000 shares of cumulative preferred stock (par $50). **Price**—To be supplied by amendment. **Proceeds**—To redeem two issues of $2.50 preferred stock (par $50), totaling 88,800 shares, and, together with proceeds from proposed issue of $8,000,000 of new first mortgage bonds, to redeem $8,000,000 3⅞% bonds presently outstanding. **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane, New York.

★ California Electric Power Co. (5/25)
April 26 filed $8,000,000 of first mortgage bonds due 1984. **Proceeds**—To redeem a like amount of first mortgage 3⅞% bonds due 1983. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Kidder, Peabody & Co.; Blyth & Co., Inc. **Bids**—Expected to be received on May 25.

Capper Publications, Inc., Topeka, Kansas
March 23 filed $2,000,000 of series six 5-year first mortgage 4% bonds and $2,000,000 of series seven 10-year first mortgage bonds. **Price** — At 100% of principal amount. **Proceeds**—To advance sums to Topeka Broadcasting Association, Inc., a subsidiary, and for redemption of certain bonds. **Underwriter**—None.

Carolina Casualty Insurance Co.
April 7 (letter of notification) 20,000 shares of class B stock (par $1). **Price**—$4 per share. **Proceeds**—To increase capital and surplus. **Office** — 262 Morehead St., Burlington, N. C. **Underwriter** — Courts & Co., Atlanta, Ga.

★ Chinook Petroleum Co., Yakima, Wash.
April 23 (letter of notification) 200,000 shares of common stock (par 20 cents). **Price**—50 cents per share. **Proceeds**—For petroleum operations. **Office**—918 E. Spruce Street, Yakima, Wash. **Underwriter**—George Wydenes, same address.

Claussen Bakeries, Inc., Augusta, Ga.
April 1 filed 162,500 shares of class A common stock (par $1) and 62,500 shares of class B common stock (par $1). **Price**—Of class A shares, to be supplied by amendment; of class B shares, $8 per share. **Proceeds**—From sale of stock, together with $500,000 to be received for sale of 5% debentures, will be used to acquire stock of H. H. Claussen's Sons, Inc. **Underwriter**—Johnson, Lane, Space & Co., Inc., Savannah, Ga.

Cleveland Electric Illuminating Co. (5/4)
March 31 filed $20,000,000 of first mortgage bonds due 1989. **Proceeds**—For construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc., Blyth & Co., Inc., and White, Weld & Co. (jointly); Kuhn, Loeb & Co. and Wertheim & Co. (jointly); Glore, Forgan & Co.; The First Boston Corp.; Dillon, Read & Co. Inc. **Bids**—Tentatively expected to be received up to noon (EDT) on May 4 at 75 Public Square, Cleveland 1, Ohio.

★ Colonial Fund, Inc. (5/17)
April 23 filed 700,000 shares of common stock (par $1). **Price**—Initially at $16 per share. **Proceeds**—For investment. **Underwriter**—Stone & Webster Securities Corp., New York.

Columbia Gas System, Inc.
March 22 filed $50,000,000 of subordinated convertible debentures due 1984 being offered for subscription by common stockholders of record April 21 on the basis of $100 of debentures for each 36 shares held; rights to expire on May 10. **Price**—100% of principal amount. **Proceeds** — For construction program. **Underwriter** — Halsey, Stuart & Co. Inc. won award of the issue on April 21.

● Commonwealth Edison Co.
April 1 filed $50,000,000 of 3% first mortgage bonds, series Q, due May 1, 1984. **Proceeds**—To redeem $40,000,000 3⅝% bonds due 1983 (which were sold last July) and for new construction. **Price**—100.3948% to yield

Continued on page 42

NEW ISSUE CALENDAR

April 29 (Thursday)
Southern Pacific Co.____Equip. Trust Ctfs.
(Bids noon EDT) $7,905,000

April 30 (Friday)
Standard Uranium Corp.____Common
(Gearhart & Otis, Inc. and Crerie & Co.) $1,787,500
Texas State Oil & Gas Co.____Common
(L. D. Sherman & Co.) $299,500

May 1 (Saturday)
North Pittsburgh Telephone Co.____Common
(Offering to stockholders—no underwriting) $50,000

May 3 (Monday)
Acme Industries, Inc.____Common
(Baker, Simonds & Co.) 50,000 shares
Delaware Power & Light Co.____Bonds
(Bids 11:30 a.m. EDT) $10,000,000
Light Metals Refining Corp.____Common
(Philip Gordon & Co., Inc.) $5,000,000
North American Uranium & Oil Corp.____Common
(Israel & Co.) $1,500,000
Republic Aviation Corp.____Common
(Smith, Barney & Co.) 30,000 shares

May 4 (Tuesday)
Cleveland Electric Illuminating Co.____Bonds
(Bids noon EDT) $20,000,000
Devon-Leduc Oils Ltd.____Bonds
(McLaughlin, Reuss & Co.) $2,000,000
Montana Power Co.____Bonds
(Bids 11 a.m. EDT) $6,000,000
Montana Power Co.____Preferred
(Bids 11 a.m. EDT) $6,000,000
Southern Counties Gas Co. of Calif.____Bonds
(Bids 8:30 PDT) $15,000,000
Wisconsin Electric Power Co.____Bonds
(Bids 11 a.m. EDT) $20,000,000

May 5 (Wednesday)
New Jersey Bell Telephone Co.____Debentures
(Bids 11 a.m. EDT) $25,000,000
Niagara Mohawk Power Corp.____Preferred
(Harriman Ripley & Co. Inc.) $21,000,000

May 7 (Friday)
Twin Arrow Petroleum Corp.____Class A
(General Investing Corp.) $300,000
Shawano Development Corp.____Common
(McGrath Securities Corp.) $249,000

May 10 (Monday)
Electronic Associates, Inc.____Common
(Offering to stockholders—no underwriting) $138,750
Inter-Canadian Corp.____Common
(White, Weld & Co.) $2,500,000
Iowa Public Service Co.____Bonds
(Bids 11 a.m. EDT) $7,500,000
Kansas-Nebraska Natural Gas Co., Inc.
Preferred & Common
(The First Trust Co. of Lincoln, Neb. and Cruttenden & Co.) $1,000,000 pfd. and 85,909 shs. of common

May 11 (Tuesday)
Consolidated Edison Co. of New York, Inc.____Bonds
(Bids 11 a.m. EDT) $50,000,000
Northern Natural Gas Co.____Debentures
(Blyth & Co., Inc.) $40,000,000

May 12 (Wednesday)
Allis-Chalmers Mfg. Co.____Preferred
(Blyth & Co., Inc.) $35,000,000
General Public Utilities Corp.____Common
(Offering to stockholders—Merrill Lynch, Pierce, Fenner & Beane may act as clearing agent) 606,423 shares
Keystone Portland Cement Co.____Common
(Shields & Co.) 330,296 shares
Montana Power Co.____Debentures
(Bids 11 a.m. EDT) $18,000,000

May 14 (Friday)
First Nat'l Bank of Toms River, N. J.____Common
(Offering to stockholders) $150,000

May 17 (Monday)
Virginia Electric & Power Co.____Bonds
(Bids noon EDT) $25,000,000

May 18 (Tuesday)
Missouri Public Service Co.____Preferred
(Kidder, Peabody & Co.) $5,000,000
Northern Ohio Telephone Co.____Common
(Offering to stockholders—may be underwritten By Hayden, Miller & Co. and Lawrence Cook & Co.) 117,500 shares
Pacific Gas & Electric Co.____Bonds
(Bids to be invited) $65,000,000
State Loan & Finance Corp.____Debentures
(Johnston, Lemon & Co. and Union Securities Corp.) $8,000,000

May 19 (Wednesday)
California Electric Power Co.____Preferred
(Merrill Lynch, Pierce, Fenner & Beane) $5,250,000
New York State Electric & Gas Corp.____Bonds
(Bids to be invited) $20,000,000
Public Service Electric & Gas Co.____Preferred
(Morgan Stanley & Co., Drexel & Co. and Glore, Forgan & Co.) $24,994,200

May 20 (Thursday)
Automatic Canteen Co. of America____Common
(Offering to stockholders—underwritten by Glore, Forgan & Co.) 77,706 shares
Transportation Development Corp.____Common
(L. H. Rothchild & Co.) $600,000

May 25 (Tuesday)
California Electric Power Co.____Bonds
(Bids to be invited) $8,000,000
Consolidated Natural Gas Co.____Debentures
(Bids 11:30 a.m. EDT) $25,000,000

May 26 (Wednesday)
Public Service Electric & Gas Co.____Bonds & Pfd.
(Bids to be invited) $50,000,000

June 7 (Monday)
Consumers Power Co.____Bonds
(Bids to be invited) $25,000,000

June 8 (Tuesday)
Southwestern Gas & Electric Co.____Bonds
(Bids to be invited) $10,000,000

June 22 (Tuesday)
Gulf Power Co.____Bonds
(Bids to be invited) $10,000,000

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2.98%. **Underwriter**—Glore, Forgan % Co., who were awarded the issue on April 27. **Offering**—Expected today (April 29)).

Consol. Edison Co. of New York, Inc. (5/11)
April 7 filed $50,000,000 of first and refunding mortgage bonds, series K, due May 1, 1984. **Proceeds**—To be applied towards cost of redeeming $27,982,000 New York Steam Corp. first mortgage bonds and $25,000,000 Westchester Lighting Co. general mortgage bonds. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; The First Boston Corp. **Bids**—Tentatively expected to be received up to 11 a.m. (EDT) on May 11.

Consolidated Natural Gas Co. (5/25)
April 15 filed $25,000,000 of debentures due 1979. **Proceeds**—To repay $15,000,000 long-term notes due March 1, 1955, and to purchase stock from or make loans to its subsidiaries who will use the funds to pay for new construction. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc., White, Weld & Co. and Paine, Webber, Jackson & Curtis (jointly); Morgan Stanley & Co. and The First Boston Corp. (jointly). **Bids**—Expected to be received up to 11:30 a.m. (EDT) on May 25.

★ Control Engineering Corp., Norwood, Mass.
April 23 (letter of notification) $300,000 of 6% subordinated convertible debentures due April 1, 1964. **Price**—At 100%. **Proceeds**—For working capital. **Underwriters**—Childs, Jeffries & Thorndike, Inc., New York, and Eastabrook & Co., Boston, Mass.

Cooperative Grange League Federation Exchange, Inc.
March 26 filed 7,500 shares of 4% cumulative preferred stock (par $100) and 500,000 shares of common stock (par $5). **Price** — At par. **Proceeds**—To retire class B common stock and 5% cumulative preferred stock of G. L. F. Holding Corp., a subsidiary, and for working capital. **Underwriter**—None. This offering is a continuation of earlier offerings of same classes of securities.

Cornbelt Insurance Co., Freeport, Ill.
March 17 filed 300,000 shares of common stock (par $1). **Price**—$3 per share. **Proceeds**—For investment. **Underwriter**—None.

Cornell-Dubilier Electric Corp.
April 7 (letter of notification) 1,666 shares of common stock. **Price**—At market (approximately $30 per share). **Proceeds** — To Octave Blake, the selling stockholder. **Underwriter**—Pyne, Kendall & Hollister, New York.

Delaware Power & Light Co. (5/3)
April 6 filed $10,000,000 first mortgage and collateral trust bonds due May 1, 1984. **Proceeds**—To retire bank loans and for new construction. **Underwriter** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co.; 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 & Co. and Salomon Bros. & Hutzler (jointly); W. C. Langley & Co. **Bids**—Tentatively expected to be received up to 11:30 a.m. (EDT) on May 3 at 600 Market St., Wilmington 99, Del.

● Devon-Leduc Oils Ltd. (5/4)
March 10 filed $2,000,000 10-year 5% convertible sinking fund leasehold mortgage bonds due May 1, 1964. **Price**—100% of principal amount. **Proceeds**—To redeem outstanding bonds, repay bank loan and for general corporate purposes, including drilling commitments in the Stony Plain India Reserve and in participation of the development of the Buck Lake Area. **Office**—Winnipeg, Canada. **Underwriter**—McLaughlin, Reuss & Co., New York.

★ Diamond Asphalt Co., Bountiful, Utah
April 23 (letter of notification) 5,000 shares of preferred stock (par $10) and 50,000 shares of common stock (par 10 cents) to be offered in units of one share of each class of stock. **Price**—$10 per unit. **Proceeds**—For additions to refinery and working capital. **Office**—462 W. Fifth South Street, Bountiful, Utah. **Underwriter**—None.

★ Douglas Oil Co. of California.
April 23 (letter of notification) a maximum of 17,000 shares of common stock (par $1). **Price**—At market (around $6.37½ per share). **Proceeds**—To certain selling stockholders. **Underwriter**—Shearson, Hammill & Co., New York.

Electronic Associates, Inc. (5/10)
April 19 (letter of notification) 7,500 shares of common stock (par $1) to be offered for subscription by stockholders of record May 10, 1954 on the basis of one new share for each 15 shares held; rights to expire on June 9, 1954. **Price**—$18.50 per share. **Proceeds**—For working capital. **Office**—Long Branch Ave., Long Branch, N. J. **Underwriter**—None.

★ Ellicott Drug Realties, Inc., Buffalo, N. Y.
April 23 (letter of notification) $200,000 of 6% second mortgage bonds dated July 1, 1954, and 1,000 shares of common stock (par $50) to be offered to members and stockholders of Ellicott Drug Co., in units of $400 of bonds and two shares of stock. **Price**—$500 per unit. **Proceeds**—To construct warehouse and for working capital. **Office**—127 Cherry Street, Buffalo 8, N. Y. **Underwriter**—None.

Family Digest, Inc.
April 9 (letter of notification) 142,875 shares of class A stock. **Price**—At par ($1 per share). **Proceeds**—For operating capital and operating expenses. **Office**—421 Hudson St., New York 14, N. Y. **Underwriter**—Carl J. Bliedung, Washington. D. C.

Financial Credit Corp., New York
Jan. 29 filed 250,000 shares of 7% cumulative sinking fund preferred stock. **Price**—At par ($2 per share). **Proceeds**—For working capital. **Underwriter**—E. J. Fountain & Co., Inc., New York.

★ Financial Industrial Fund, Inc., Denver, Colo.
April 26 filed 5,000,000 shares of capital stock. **Price**—At market. **Proceeds**—For investment.

Firth-Loach Metals, Inc., Pittsburgh, Pa.
March 18 filed 33,400 shares of capital stock (par $25). **Price**—$25 per share. **Proceeds** — For expansion, equipment and working capital. **Underwriter**—None.

★ Founders Mutual Fund, Denver, Colo.
April 23 filed $13,500,000 of systematic payment plan certificates, $450,000 of accumulative plan certificates, and $300,000 of income plan certificates.

Gamma Corp., Wilmington, Del.
Feb. 2 (letter of notification) 140,000 shares of common stock (par 10 cents). **Price**—$1.50 per share. **Proceeds**—For inventory, capital expenditures and working capital. **Office**—100 West 10th Street, Wilmington, Del. **Underwriter**—Sheehan & Co., Boston, Mass.

● Gary (Theodore) & Co., Kansas City, Mo.
March 31 filed 310,000 shares of participating common stock (par 20 cents) being offered for subscription by holders of participating common and common stock of record April 21 on the basis of seven new shares for each 10 shares held; rights to expire on May 6. **Price**—$15 per share. **Proceeds**—To increase investment in Telephone Bond & Share Co. and for general corporate purposes. **Dealer-Manager**—W. C. Pitfield & Co., Inc., New York.

General Credit Corp., Miami, Fla.
March 25 (letter of notification) 74,990 shares of capital stock (par $1). **Price**—$4 per share. **Proceeds**—For working capital. **Office**—799 N. W. 62nd Street, Miami, Fla. **Underwriter**—Murphy & Co.. Miami, Fla.

General Gas Corp., Baton Rouge, La.
March 19 filed 100,000 shares of common stock (par $5). **Price** — To be supplied by amendment. **Proceeds** — To selling stockholders. **Underwriter**—Kidder, Peabody & Co., New York. **Offering**—Postponed indefinitely.

General Public Utilities Corp. (5/12)
April 15 filed 606,423 shares of common stock (par $5) to be offered for subscription by stockholders at rate of one new share for each 15 shares held on May 12; with rights to expire June 2. **Price**—To be supplied by amendement. **Proceeds**—To be invested in corporation's domestic subsidiaries. **Underwriter**—None, but Merrill Lynch, Pierce, Fenner & Beane may act as clearing agent.

General Stores Corp., New York
March 8 filed 300,000 shares of common stock (par $1). **Price**—$1.37½ per share. **Proceeds**—To pay part of cost of acquisition of Ford Hopkins Co., Chicago, Ill. **Underwriter**—A. C. Allyn & Co., Inc., Chicago, Ill.

Gulf Insurance Co., Dallas, Texas
March 29 (letter of notification) 5,000 shares of common stock (par $10) being offered for subscription by stockholders of record April 12 on the basis of one new share for each 44 shares held; rights to expire on May 3. **Price**—$55 per share. **Proceeds**—For general corporate purposes. **Office** — 3015 Cedar Springs Road, Dallas, Tex. **Underwriter**—None.

Home Improvement Financing Corp.
April 12 (letter of notification) 30,000 shares of 6% preferred stock (with warrants to purchase 60,000 shares of class A common stock). **Price** — At par ($10 per share). **Proceeds** — To finance home improvements. **Office**—240 West Front St., Plainfield, N. J. **Underwriter**—None.

● Housatonic Public Service Co.
April 7 filed 41,159 shares of common stock (par $15) to be offered for subscription by stockholders of record April 23 at the rate of one new share for each eight shares then held (with unsubscribed shares being offered to officers and employees); rights to expire on May 13. **Price**—To to be supplied by amendment. **Proceeds**—To repay $130,000 bank loans and for construction expenses. **Underwriter**—None.

● Inter-Canadian Corp., Chicago, Ill. (5/10)
April 19 filed 100,000 shares of common stock (par $1). **Price**—$25 per share. **Proceeds**—For venture or semi-venture investment situations in Canada. **Underwriter**—White, Weld & Co., New York.

★ Intermountain Associates, Inc., Las Vegas, Nev.
April 20 (letter of notification) 300,000 shares of common stock, of which 95,333 shares are for the account of the company and 204,667 shares for the account of Leo H. Janney, Chairman of the Board. **Price**—At par ($1 per share). **Proceeds**—For general corporate purposes. **Office**—401 South Main Street, Las Vegas, Nev. **Underwriter**—None.

★ Investors Planning Corp. of America, New York
April 23 filed $2,000,000 of fully-paid plans and $13,-000,000 of systematic investment plans and systematic contractual plans.

Iowa Public Service Co. (5/10)
April 14 filed $7,500,000 of first mortgage bonds due May 1, 1984. **Proceeds**—To redeem a like amount of outstanding first mortgage 4% bonds due 1983 at 102.42% plus accrued interest. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Union Securities Corp. and Salomon Bros. & Hutzler (jointly); Equitable Securities Corp.; White, Weld & Co.; Kidder, Peabody & Co. and Blyth & Co., Inc. (jointly). **Bids**—Expected to be received up to 11 a.m. (EDT) on May 10.

★ Kendon Electronics Co., Inc.
April 21 (letter of notification) 150,000 shares of common stock (par 10 cents). **Price**—25 cents per share. **Proceeds**—For working capital and general corporate purposes. **Office** — 18 Clinton Street, Brooklyn, N. Y. **Underwriter**—20th Century Pioneer Securities Co., New York, N. Y.

Keps Electric Co.
April 6 (letter of notification) $200,000 of 14-year 4½% registered debentures and 12,000 shares of capital stock (par $1) to be offered to present debenture holders of record April 1; with rights to expire on May 4, in units of one $500 debenture and 30 shares of stock. **Price**—$560 per unit. **Proceeds**—For working capital. **Office**—5000 Baum Blvd., Pittsburgh 13, Pa. **Underwriter**—None.

★ Keystone Portland Cement Co., Philadelphia, Pa. (5/12)
April 21 filed 330,296 shares of common stock (par $3). **Price**—To be supplied by amendment. **Proceeds**—To selling stockholders. **Underwriter**—Shields & Co., New York.

Kropp Forge Co., Cicero, Ill.
April 7 (letter of notification) 26,450 shares of common stock (par 33⅓ cents). **Price**—At market (estimated at $2.50 per share). **Proceeds**—To Roy A. Kropp, Chairman and President. **Underwriter**—L. D. Sherman & Co., New York, and Sincere & Co., Chicago, Ill. No general public offer planned.

★ Langendorf United Bakeries, Inc., San Francisco, Calif.
April 22 (letter of notification) 1,500 shares of common stock (par $1) to be offered to certain employees. **Price**—Equal to 85% of fair market value, to be determined by bid price in over-the-counter market date of offering. **Proceeds**—For working capital. **Office** — 1160 McAllister St., San Francisco, Calif. **Underwriter**—None.

● Light Metals Refining Corp., New York (5/3)
Feb. 15 filed 1,250,000 shares of common stock (par $1). **Price** — $4 per share. **Proceeds** — For construction and equipment of control plant, and main plant, working capital, advance royalties and reserves. **Business** — To refine beryllium ore and market the products. **Underwriter**—Philip Gordon & Co., Inc., New York.

★ Lisbon Valley Uranium Co., Denver, Colo.
April 21 (letter of notification) 2,000,000 shares of common stock (par one cent). **Price**—15 cents per share. **Proceeds**—For exploration and development of properties. **Office**—3246 Niagara Street (Box 186), Denver 1, Colo. **Underwriter**—None.

★ Magnedisc Corp., Hollywood, Calif.
April 21 (letter of notification) 4,546 shares of preferred stock and 4,545 shares of common stock. **Price**—Of preferred, $10 per share; and of common, $1 per share. **Proceeds**—To make electro-magnetic disc recorders. **Address**—c/o T. H. Mann, 8657 Wonderland Avenue, Hollywood, Calif. **Underwriter**—None.

Mediterranean Petroleum Corp., Inc., Republic of Panama
March 30 filed American voting trust certificates for 1,000,000 shares of common stock (par one cent). **Price**—To be supplied by amendment. **Proceeds**—For exploratory drilling and development, in State of Israel, and for operations and expenses. **Underwriter**—To be named by amendment.

Minnesota Mining & Manufacturing Co.
April 19 filed 200,000 shares of common stock (no par), to be issued under the company's "General Restricted Stock Option Plan" to employees of this corporation and six other companies.

Mission Indemnity Co., Pasadena, Calif.
March 29 filed 600,000 shares of common stock (par 65 cents) to be offered first to stockholders and to general public. **Price**—$2 per share. **Proceeds**—To increase capital and surplus. **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 Valley Molasses Co., Inc. (Tenn.)
April 16 (letter of notification) preorganization subscriptions to 2,500 shares of common stock. **Price**—At par ($100 per share). **Proceeds**—For construction of a barge terminal and operating capital. **Underwriter**—None.

★ Missouri Public Service Co. (5/18)
April 23 filed 50,000 shares of cumulative preferred stock (par $100). **Price**—To be supplied by amendment. **Proceeds**—To redeem outstanding first preferred stock ($3,475,000), to repay $750,000 bank loans and the balance for construction program. **Underwriter**—Kidder, Peabody & Co., New York.

Montana Power Co. (5/4)
March 31 filed $6,000,000 first mortgage bonds due 1984. **Proceeds**—For construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co., Smith, Barney & Co., Blyth & Co., Inc. and Lee Higginson Corp. (jointly); Union Securities Corp. **Bids**—Expected to be received up to 11 a.m. (EDT) on May 4.

Montana Power Co. (5/4)
March 31 filed 60,000 shares of cumulative preferred stock (no par). **Proceeds** — For construction program. **Underwriter**—May be determined by competitive bidding. Probable bidders: White, Weld & Co.: Union Securities Corp.; Kidder, Peabody & Co. and Blyth &

Co., Inc. (jointly). **Bids**—Expected to be received up to 11 a.m. (EDT) on May 4.

Montana Power Co. (5/12)
March 31 filed $18,000,000 of debentures due 1979. **Proceeds**—To refund a like amount of 4⅜% debentures due 1978. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; White, Weld & Co.; Kidder, Peabody & Co., Smith, Barney & Co., Blyth & Co., Inc. and Union Securities Corp. (jointly). **Bids**—Expected to be received up to 11 a.m. (EDT) on May 12.

Monterey Oil Co., Los Angeles, Calif.
Feb. 2 filed 257,338 shares of common stock (par $1). **Price**—At the market price then prevailing on the New York Stock Exchange, or through special offerings or secondary distributions. **Proceeds**—To Lehman Borthers (400 shares); partners of Lehman Brothers and members of their immediate families (150,458); and The Lehman Corp. (106,480). **Underwriter**—None. No general offer planned.

Mountain States Telephone & Telegraph Co.
March 5 filed 487,248 shares of capital stock being offered to stockholders of record March 26 on the basis of one new share for each four shares held; rights to expire on April 30. About 86.66% of the presently outstanding stock is owned by American Telephone & Telegraph Co. **Price**—At par ($100 per share). **Proceeds**—To repay advances from parent company and for new construction. **Underwriter**—None.

Natick Industries, Inc., Natick, Mass.
March 10 (letter of notification) 58,800 shares of common stock (par $1). **Price**—$5 per share. **Proceeds**—For working capital, etc. **Underwriter**—J. P. Marto & Co., Boston, Mass.

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 Jersey Bell Telephone Co. (5/5)
April 7 filed $25,000,000 of 35-year debentures due May 1, 1989. **Proceeds**—To repay advances from American Telephone & Telegraph Co., the parent, and for construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co., Inc.; Kuhn, Loeb & Co.; Morgan Stanley & Co.; Shields & Co.; White, Weld & Co.; The First Boston Corp. **Bids**—To be received up to 11 a.m. (EDT) on May 5 at Room 2315, 195 Broadway, New York, N. Y.

New Mexico Copper Corp.
April 4 (letter of notification) 600,000 shares of common stock (par 25 cents). **Price**—50 cents per share. **Proceeds**—For mining expenses. **Office**—Carrizozo, N. M., and 1211 E. Capital St., Washington, D. C. **Underwriter**—Mitchell Securities, Inc., Baltimore, Md.

★ **New Park Mining Co., Salt Lake City, Utah**
April 22 (letter of notification) 100,000 shares of common stock (par $1) to be offered for subscription by key personnel through options exercisable for eight years at 95% of the market price on June 16, 1952 (current market is $1.37½ per share). **Price**—$2.02 per share. **Proceeds**—For general corporate purposes. **Office**—904 Walker Bank Building, Salt Lake City, Utah. **Underwriter**—None.

● **New York State Electric & Gas Corp. (5/19)**
April 21 filed $20,000,000 first mortgage bonds due 1984. **Proceeds**—To repay bank loans and for new construction. **Underwriters**—May be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co. and Salomon Bros. & Hutzler (jointly); Union Securities Corp.; The First Boston Corp. and Glore, Forgan & Co. (jointly); Lehman Brothers, Harriman Ripley & Co. Inc.; Hemphill, Noyes & Co. and Drexel & Co. (jointly). **Bids**—Expected to be received up to 11 a.m. (EDT) on May 19.

● **Niagara Mohawk Power Corp. (5/5-11)**
April 20 filed 210,000 shares of cumulative preferred stock (par $100). **Price**—To be supplied by amendment. **Proceeds** — To repay bank loans incurred for construction and to reimburse company's treasury and to finance construction. **Underwriter**—Harriman Ripley & Co. Inc., New York.

● **North American Uranium & Oil Corp. (5/3-4)**
March 1 filed 750,000 shares of common stock (par 10 cents). **Price**—$2 per share. **Proceeds**—For capital expenditures, including payment of balance due on certain claims and properties. **Underwriter**—Israel & Co., New York.

★ **North Pittsburgh Telephone Co. (5/1)**
April 23 (letter of notification) 2,000 shares of common stock to be offered for subscription by common stockholders of record May 1, 1954, on the basis of one new share for each five common shares held. **Price**—At par ($25 per share). **Proceeds**—For general corporate purposes. **Office**—Gibsonia, Pa. **Underwriter**—None.

North Shore Music Theater, Inc., Boston, Mass.
Feb. 3 (letter of notification) $80,000 of 5% notes due Feb. 1, 1974, and 2,000 shares of common stock (par $10) to be sold in units of $400 principal amount of notes and 10 shares of stock. **Price**—$500 per unit. **Proceeds**—For actors' equity bond, royalties, land, construction of theater and related expenses. **Office**—60 State St., Boston, Mass. **Underwriter**—H. C. Wainwright & Co., Boston, Mass.

Northern Natural Gas Co. (5/11)
April 16 filed $40,000,000 of sinking fund debentures due Nov. 1, 1973. **Price**—To be supplied by amendment. **Proceeds**—To be applied toward redemption in June, 1954, of a like amount of 4½% debentures due Nov. 1, 1973. **Underwriter**—Blyth & Co., Inc., New York.

★ **Northern Ohio Telephone Co. (5/18)**
April 23 filed 117,150 additional shares of common stock (par $10) to be offered for subscription by stockholders about May 18 on the basis of one new share for each two held; with a 14-day standby. **Price**—To be supplied by amendment. **Proceeds**—To repay bank loans and for property additions and improvements. **Underwriters**—Hayden, Miller & Co.; McDonald & Co.; Merrill, Turben & Co.; and Lawrence Cook & Co.; all of Cleveland, Ohio.

Northern States Power Co. (Minn.)
March 16 filed 1,219,856 shares of common stock (par $5) being offered for subscription by common stockholders on the basis of one new share for each 10 shares held on April 15; rights to expire on May 4. **Price**—$14 per share. **Proceeds**—To repay bank loans and for construction program. **Underwriter**—The First Boston Corp., Blyth & Co., Inc., and Kuhn, Loeb & Co. (jointly).

Pacific Gas & Electric Co. (5/18)
April 20 filed $65,000,000 of first and refunding mortgage bonds, series X, due June 1, 1984. **Proceeds** — To refund $63,040,000 4% bonds, series V. **Underwriter**—To be determined by competitive bidding. Probable bidders: The First Boston Corp. and Halsey, Stuart & Co. Inc. (jointly); Blyth & Co., Inc. **Bids**—Tentatively expected to be received on May 18.

Pan-Israel Oil Co., Inc. of Republic of Panama
March 30 filed American voting trust certificates for 1,000,000 shares of common stock (par one cent). **Price**—To be supplied by amendment. **Proceeds**—For exploratory drilling and development in State of Israel, and for operations and expenses. **Underwriter**—To be named by amendment.

★ **Pawnee Oil & Gas Co., Tulsa, Okla.**
April 21 (letter of notification) 149,500 shares of common stock (par $1). **Price**—$2 per share. **Proceeds**—To purchase additional interests under option and to drill offset wells. **Underwriters**—S. D. Fuller & Co. and Vermilyea Brothers of New York.

Peninsular Telephone Co., Tampa, Fla.
April 1 filed 131,836 shares of common stock (no par) being offered for subscription by stockholders of record April 20 at the rate of one new share for each five shares then held (with unsubscribed shares being offered to certain officers and employees); rights to expire on May 5. **Price**—$32 per share. **Proceeds**—For construction program. **Underwriter**—Morgan, Stanley & Co. and Coggeshall & Hicks, both of New York.

People's Finance Corp., Denver, Colo.
March 23 filed $300,000 of 6% 15-year convertible subordinated debentures. **Price**—100% of principal amount. **Proceeds**—For general corporate purposes, probably to reduce outstanding bank loans or repurchase of outstanding securities. **Underwriter** — Paul C. Kimball & Co., Chicago, Ill.

People's Finance Corp., Denver, Colo.
March 23 filed 2,904 shares of 6% cumulative preferred stock. **Price**—At par ($50 per share). **Proceeds** — For general corporate purposes. **Underwriter**—None. Company is also seeking registration of $164,000 of debentures, notes and preferred and common stock heretofore sold and holders thereof are to be offered the right to rescind their purchases.

★ **Peoples State Loan Co. of Delaware.**
April 23 (letter of notification) $25,000 of 5% subordinated debenture notes due July 1, 1959 and $140,000 of 6% subordinated debenture notes due July 1, 1963 (including rescission offer to purchasers of certain debenture notes). **Price**—At par. **Proceeds**—To redeem certain debenture notes and for working capital. **Office**—200 Murphy Building, Highland Park, Mich. **Underwriter**—None.

Porta Co., Inc., Chestnut Hill, Mass.
April 8 (letter of notification) 640 shares of $6 cumulative preferred stock (no par) and 640 shares of common stock (no par) to be offered in units of one share of each class of stock. **Price**—$100 per unit. **Proceeds**—For manufacture of sporting goods. **Office** — 48 Moody St., Chestnut Hill, Mass. **Underwriter** — Minot Kendall & Co., Inc., Boston, Mass.

Prudential Finance Corp. of America.
April 9 (letter of notification) $100,000 of 6% debentures and 100,000 shares of common stock (par 10 cents) and 50,000 shares of class A stock (par one cent), the shares to be sold in units of one share of common and one-half share of class A stock. **Price**—Of debentures, at par; of stock units, $2 each. **Proceeds**—To make loans and discount commercial paper. **Office** — 1108-16th St., N. W., Washington 6, D. C. **Underwriter**—John C. Kahn Co., Washington, D. C.

Pumice, Inc., Idaho Falls, Idaho
March 29 (letter of notification) 1,170,000 shares of common stock (par 10 cents). **Price**—25 cents per share. **Proceeds**—To complete plant, repay obligations and for working capital. **Office** — 1820 N. Yellowstone, Idaho Falls, Idaho. **Underwriter** — Coombs & Co., Salt Lake City, Utah.

Republic Aviation Corp. (5/3)
April 14 filed 30,000 shares of common stock (par $1). **Price**—To be supplied by amendment. **Proceeds**—To a selling stockholder. **Underwriter**—Smith, Barney & Co., New York.

Rio Grande Investment Co., Longmont, Colo.
April 19 (letter of notification) 1,150 shares of common stock (no par) and 1,150 shares of 6% cumulative participating preferred stock (par $100) to be offered in units of one share of each class of stock. **Price**—$100 per unit. **Proceeds** — For operating expenses and to make loans. **Business**—Finance company. **Address**—P. O. Box 194, Longmont, Colo. **Underwriter**—William E. Conly, Jr., Longmont, Colo.

Shawano Development Corp. (Fla.) (5/7)
April 23 (letter of notification) 83,000 shares of common stock (par $1). **Price**—$3 per share. **Proceeds**—For development of land and planting Ramie and for working capital. **Underwriter** — McGrath Securities Corp., New York.

Signature Loan Co., Inc.
March 5 filed 58,916 shares of 7% cumulative convertible preferred stock (par $11) being offered in exchange for outstanding participating preferred stock held at close of business March 25 on basis of two new shares of 7% stock for each old participating preferred share held. The offer expires on April 30. Subject to prior right of exchange, 47,806 shares of the new preferred are to be purchased by the below named underwriters and reoffered to public. **Price**—$11.50 per share. **Proceeds**—To retire participating preferred stock. **Underwriters** — Simon, Strauss & Himme, New York; William N. Pope, Inc., Syracuse, N. Y.; and Chace, Whiteside, West & Winslow, Inc., Boston, Mass. **Change in Name**—Company was formerly known as Federal Loan Co. of Pittsfield, Inc.

Signature Loan Co., Inc.
March 5 filed 29,458 shares of convertible preferred stock (par $11) and 29,458 shares of class A common stock (par $1) being offered to holders of participating preferred stock in units of one share of each class of stock on the basis of one unit for each participating preferred share held as of record March 25 (with an oversubscription privilege); rights will expire on April 30. **Price**—$15 per unit to stockholders and $15.50 per unit to public. **Proceeds** — For expansion and working capital. **Underwriters** — Simon, Strauss & Himme and A. M. Kidder & Co., both of New York; William N. Pope, Inc., Syracuse, N. Y.; Chace, Whiteside, West & Winslow, Inc. and Draper, Sears & Co., both of Boston, Mass.; and Chilson, Newbery & Co., Kingston, N. Y.

Southern Counties Gas Co. of California (5/4)
April 5 filed $15,000,000 first mortgage bonds, series A, due 1984. **Proceeds**—To repay advances received from parent, Pacific Lighting Corp., and for new construction. **Underwriter** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Merrill Lynch, Pierce, Fenner & Beane and Dean Witter & Co. (jointly); Blyth & Co., Inc.; The First Boston Corp.; White, Weld & Co. **Bids**—Expected to be received up to 8:30 a.m. (PDT) on May 4.

Spokane Seed Co., Spokane, Wash.
March 8 filed $600,000 of 5% convertible debentures due June 15, 1964, to be sold to pea growers located in Eastern Washington and Northern Idaho. **Price**—100% of principal amount. **Proceeds**—To improve facilities and for working capital. **Underwriter**—None.

● **Standard Uranium Corp. (4/30)**
March 15 filed 1,430,000 shares of common stock (par one cent). **Price**—$1.25 per share. **Proceeds**—To exercise options on claims, and for general corporate purposes. **Office** — Moab, Utah. **Underwriters** — Gearhart & Otis, Inc., New York, and Crerie & Co., Houston, Tex.

★ **State Loan & Finance Corp., Washington, D. C. (5/18)**
April 26 filed $8,000,000 of 12-year sinking fund debentures due May 1, 1966. **Price**—To be supplied by amendment. **Proceeds**—To reduce outstanding bank loans. **Underwriters**—Johnston, Lemon & Co., Washington, D. C., and Union Securities Corp., New York.

Strevell-Paterson Finance Corp.
Feb. 19 filed 640,000 shares of common stock (par 50 cents being offered in exchange for the $300,000 par value of authorized, issued and outstanding capital stock of Strevell-Paterson Finance Co. on the basis (a) of 13 shares of Corporation stock for each of the 5,000 shares of 5% cumulative preferred stock (par $10) of the Company and (b) 23 shares of Corporation stock for each of the 25,000 shares of $10 par common stock of the company. Offer expires Oct. 31. **Underwriter**—None. **Office**—Salt Lake City, Utah. Statement effective March 30.

Sun Oil Co., Philadelphia, Pa.
April 15 filed a maximum of 139,662 shares of common stock (no par) to be offered for possible public sale during the period July 1, 1954 to June 30, 1955. **Price**—At market. **Proceeds**—To selling stockholders. **Underwriter**—None. The shares will be sold through brokerage houses.

Sun Oil Co., Philadelphia, Pa.
April 15 filed 14,000 memberships in the stock purchase plan for the employees of this company and its subsidiaries and 146,100 shares of common stock (no par), the latter representing the maximum number of shares which it is anticipated may be purchased by the trustees under the plan. **Underwriter**—None.

★ **Taylorcraft, Inc., Conway, Pa.**
April 21 (letter of notification) 100,000 shares of 6% convertible cumulative preferred stock. **Price**—At par ($2 per share). **Proceeds**—To pay creditors' claims and for working capital. **Underwriter** — Graham & Co., Pittsburgh, Pa.

● **Telephone Bond & Share Co.**
March 31 filed 324,089 shares of common stock (par $1) being offered for subscription by stockholders on the basis of one new share for each two shares held April 27; rights to expire on May 11. **Price**—$15 per share. **Proceeds**—For financing of company's subsidiaries. **Underwriters**—Lazard Freres & Co.; White, Weld & Co.; and W. C. Pitfield & Co., Inc.

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● Texas State Oil & Gas Co. (4/30)
April 7 (letter of notification) 599,000 shares of common stock (par 10 cents). **Price**—50 cents per share. **Proceeds**—For general corporate purposes. **Office**—603 Wilson Bldg., Corpus Christi, Tex. **Underwriter**—L. D. Sherman & Co., New York.

★ Tomberlin Petroleum, Inc., Denver, Colo.
April 23 (letter of notification) 300,000 shares of common stock. **Price**—$1 per share. **Proceeds**—For drilling operations, etc. **Office**—Patterson Bldg., Denver, Colo. **Underwriter**—None.

★ Transportation Development Corp., New York (5/20)
April 26 filed 100,000 shares of common stock (par $1). **Price**—$6 per share. **Proceeds**—To finance the costs of obtaining contracts for the construction of the company's transportation system, for working capital and for other general corporate purposes. **Underwriters**—L. H. Rothchild & Co., New York.

● Twin Arrow Petroleum Corp. (5/7)
April 13 (letter of notification) 600,000 shares of class A common stock (par 10 cents). **Price**—50 cents per share. **Proceeds**—For general corporate purposes. **Underwriter**—General Investing Corp., New York.

★ Union Oil Co. of California
April 23 filed $16,000,000 in company's employees incentive plan and 350,000 shares of common stock (par $25) which may be purchased under the plan.

★ United Supply Co., Seattle, Wash.
April 19 (letter of notification) 3,000 shares of common stock. **Price**—At par ($10 per share). **Proceeds**—To purchase, process, store and sell fur animal feed to users thereof. **Office**—1008 Western Avenue, Seattle, Wash. **Underwriter**—None.

Virginia Electric & Power Co. (5/17)
April 19 filed $25,000,000 of first and refunding mortgage bonds, series K, due May 1, 1984. **Proceeds**—To repay bank loans and for new construction. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc., Kuhn, Loeb & Co. and Wertheim & Co. (jointly); Stone & Webster Securities Corp.; White, Weld & Co.; Union Securities Corp.; Salomon Bros. & Hutzler. **Bids**—Expected to be received up to noon (EDT) on May 17 at Room 735, 11 Broad St., New York, N. Y.

★ Volunteer Natural Gas Co., Johnson City, Tenn.
April 26 (letter of notification) 85,000 shares of common stock (par $1). **Price**—To be suplpied by amendment. **Proceeds**—For expansion. **Underwriter**—Eastman, Dillon & Co., New York.

Webb & Knapp, Inc., New York
April 14 filed $8,607,600 of 5% sinking fund debentures due June 1, 1974, to be offered together with certain cash by the company in exchange for outstanding common stock of Equitable Office Building Corp. on basis of $5 in cash and $7 principal amount of debentures for each share of Equitable stock. Exchange offer is conditioned solely upon acceptance by 80% of outstanding shares. **Underwriter**—None.

West Coast Pipe Line Co., Dallas, Tex.
Nov. 20, 1952 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 sales 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, 1952 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.

● Wisconsin Electric Power Co.
April 7 filed 421,492 shares of common stock (par $10) being offered for subscription by stockholders of record April 27 on the basis of one new share for each 10 shares held (with an oversubscription privilege); rights to expire on May 20. Employees to receive rights to purchase unsubscribed shares. **Price**—To be supplied by amendment. **Proceeds**—For property additions and improvements. **Underwriter**—None.

Wisconsin Electric Power Co. (5/4)
April 7 filed $20,000,000 first mortgage bonds due 1984. **Proceeds**—For property additions and improvements. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Glore, Forgan & Co.; Kuhn, Loeb & Co.; Lehman Brothers and Salomon Bros. & Hutzler (jointly); Union Securities Corp. and Harriman Ripley & Co. Inc. (jointly); The First Boston Corp.; Equitable Securities Corp.; Merrill Lynch, Pierce, Fenner & Beane. **Bids**—Tentatively expected to be received up to 11 a.m. (EDT) on May 4.

Wyton Oil & Gas Corp., Newcastle, Wyo.
April 20 filed 1,000,000 shares of common stock (par $1). **Price**—$1.12½ per share. **Proceeds**—For general corporate purposes. **Underwriter** — National Securities Corp., Seattle, Wash., on a "best efforts basis."

Prospective Offerings

American Cyanamid Co.
April 21, K. T. Towe, President, announced directors have under consideration an offering to common stockholders of rights to subscribe to a new issue of convertible preferred stock (in the neighborhood of $55,000,000 to $60,000,000). **Proceeds** — For general corporate purposes. **Underwriter**—White, Weld & Co., New York.

American Natural Gas Co.
March 11 it was announced stockholders were to vote April 28 on increasing the authorized common stock from 4,000,000 to 5,000,000 shares to enable the company to sell additional shares when necessary. Offering will probably be made to present stockholders: **Proceeds**—To subsidiaries for their construction programs. **Underwriter**—None.

Arkansas Louisiana Gas Co.
Feb. 22 it was reported Cities Service Co. may sell its holdings of 1,900,000 shares of this company's stock. If sold at competitive bidding, bidders may include Smith, Barney & Co. and Blyth & Co., Inc. (jointly).

Arkansas Power & Light Co.
Feb. 8 it was reported company plans to sell, probably in August, an issue of about $7,500,000 first mortgage bonds due 1984. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Lehman Brothers, Stone & Webster Securities Corp. and White, Weld & Co. (jointly); Blyth & Co., Inc., Equitable Securities Corp. and Central Republic Co. Inc. (jointly); Merrill Lynch, Pierce, Fenner & Beane and Union Securities Corp. (jointly).

★ Automatic Canteen Co. of America (5/20)
April 26 directors have authorized company to offer 77,706 additional shares of common stock (par $5) to common stockholders of record May 20 on the basis of one new share for each six shares held. **Price**—To be determined later. **Proceeds**—To extend activities in the merchandise vending field. **Underwriter**—Glore, Forgan & Co., New York.

Boston Edison Co.
Feb. 15 it was announced company plans to issue and sell about $15,000,000 of first mortgage bonds due 1984. **Proceeds**—For construction program. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Lehman Brothers; Kuhn, Loeb & Co. and A. C. Allyn & Co. Inc. (jointly); White, Weld & Co.; Harriman Ripley & Co. Inc. **Offering**—Tentatively expected in June.

Carrier Corp.
Feb. 23 stockholders approved a proposal to increase the authorized common stock (par $10) from 1,600,000 shares to 5,000,000 shares and the authorized preferred stock (par $50) from 181,855 shares to 800,000 shares to provide for further possible financing. **Proceeds**—For expansion, etc. **Underwriters**—Harriman Ripley & Co. Inc. and Hemphill, Noyes & Co.

Central Hudson Gas & Electric Corp.
March 8 it was announced issues of mortgage bonds and preferred stock are now under consideration, but definite plans will depend largely upon developments in the securities markets. Construction cash requirements are estimated at $17,300,000 for 1954-1955. Company is reported to be considering the issuance of about $9,000,000 bonds this fall and $3,500,000 of preferred stock in 1955. **Underwriter**—Kidder, Peabody & Co., New York.

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.
April 1 William F. Wyman, President, reported that the company expects to sell $5,000,000 of convertible preferred stock late in the second quarter of 1954, but that details of the offering are not available at this time. **Proceeds**—For construction program. **Underwriter**—May be determined by competitive bidding. Probable bidders: Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); Harriman Ripley & Co. Inc.; Coffin & Burr, Inc. **Meeting**—Stockholders will vote May 12 on increasing authorized preferred stock from 330,000 shares to 410,000 shares.

Chicago Great Western Ry.
Feb. 26, the ICC dismissed the company's application for exemption of an issue of $6,000,000 collateral trust bonds due Nov. 1, 1978 from competitive bidding. **Proceeds** — To repay bank loans and for capital improvements. **Underwriters**—May be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc. and Union Securities Corp. (jointly); Kidder, Peabody & Co. and White, Weld & Co. (jointly); The First Boston Corp.; Merrill Lynch, Pierce, Fenner & Beane. On April 23, last year, the road rejected the only bid made of 98.05% for a 5¾% coupon by Halsey, Stuart & Co. Inc. and Union Securities Corp. (jointly).

● Clark Oil & Refining Corp.
April 12 it was reported this company (formerly Petco Corp.) plans early registration of 50,000 shares of convertible preferred stock (par $20) and 150,000 shares of common stock. **Proceeds**—For expansion. **Underwriter**—Loewi & Co., Milwaukee, Wis.

Colorado-Western Pipeline Co.
March 5 it was announced company has applied to Colorado P. U. Commission for authority to build a $21,500,000 natural gas pipe line, in Colorado, to be financed through sale of about 70% of bonds and 30% of equity capital. John R. Fell, a partner of Lehman Brothers, is a Vice-President.

Columbia Gas System, Inc.
March 5 it was announced that company plans early in June to issue and sell $40,000,000 of senior debentures and an additional $40,000,000 of senior debentures later in 1954. **Proceeds**—For construction expenses and to repay a bank loan of $25,000,000. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.

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.

Consolidated Edison Co. of New York, Inc.
April 8 it was announced stockholders will vote May 17 on increasing common stock (no par) by 2,000,000 shares. The company has no definite plans to issue these shares.

★ Consumers Power Co. (6/7)
April 23 company sought authority from Michigan P. S. Commission to issue and sell $25,000,000 of first mortgage 30-year bonds. **Price**—To be not less favorable to company than a 3⅛% basis. **Proceeds**—To redeem at 105.25% a like amount of outstanding 3¾% bonds due 1983. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co. **Bids**—Expected to be received on or about June 7.

● Duquesne Light Co.
April 22 directors announced stockholders will vote on June 23 to increase the authorized preferred stock from 1,090,000 to 1,250,000 shares (par $50). **Proceeds**—For construction program. **Underwriters**—To be determined by competitive bidding. Probable bidders: The First Boston Corp.; Lehman Brothers; Blyth & Co. Inc.; Kidder, Peabody & Co.; Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly); Kuhn, Loeb & Co. and Smith, Barney & Co. (jointly).

Eastern Utilities Associates
March 8 it was announced company plans the sale not later than Oct. 1, 1954 of about $2,000,000 of common stock, probably first to stockholders. **Proceeds**—To repay bank loan.

First National Bank of Toms River, N. J. (5/14)
Jan 12 it was announced bank plans to offer for subscription by its stockholders of record May 1, 1954, an additional 3,000 shares of capital stock (par $10) on the basis of one new share for each 26 shares held; rights to expire on June 16. **Price**—$50 per share. **Proceeds**—To increase capital and surplus. **Underwriter**—None.

Florida Power Corp.
March 27, it was announced that the company plans new financing late this summer which would require issuance of common stock and probably $10,000,000 of bonds. **Proceeds** — For new construction. **Underwriters** — For common stock (first to common stockholders), Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly). For bonds, to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Lehman Brothers; Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly). Common stock was increased by stockholders on March 25 from 2,500,000 shares to 5,000,000 shares, and the preferred stock from 250,000 shares to 500,000 shares.

Florida Power & Light Co.
Jan. 25 it was reported company may later this year issue and sell about $15,000,000 of first mortgage bonds. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; White, Weld & Co.; Lehman Brothers; Merrill Lynch, Pierce, Fenner & Beane; Glore, Forgan & Co. and Harriman Ripley & Co. Inc. (jointly).

● Foote Mineral Co., Philadelphia, Pa.
April 22 stockholders voted to increase the authorized common stock (par $2.50) from 500,000 shares to 1,000,000 shares. There are presently 276,088 shares outstanding and an additional 43,217 shares are reserved for conversion of debentures and 180,695 shares are available for the employees' stock bonus plan. The proposed increase in capitalization is necessary to provide additional shares to finance the continued growth of the company, or if it seems advisable for stock dividends or a stock split. **Underwriter**—Estabrook & Co., New York and Boston.

General Acceptance Corp.
March 22 it was reported company plans registration, in near future, of $4,000,000 convertible debentures due 1984 (with warrants). **Underwriter**—Paine, Webber, Jackson & Curtis.

● General Precision Equipment Corp.
April 27 stockholders voted to approve a proposal to increase the authorized convertible preference stock from 15,000 to 25,000 shares; the authorized preferred stock from 150,000 to 250,000 shares and the authorized common stock from 1,500,000 to 2,000,000 shares. **Purpose**—The increases in stock had been sought so that the company will have available additional authorized and unissued stock to be used when considered advisable by the board of directors for corporate purposes including, but not limited to, the acquisition of new business, financing of new construction, payment or prepayment of outstanding indebtedness, restoration of working capital, granting of additional employee stock options

under the plan approved by stockholders in 1949, and for additions to working capital. **Underwriters** — The First Boston Corp. and Tucker, Anthony & Co.

Glass Fibers, Inc.
April 9 it was reported company plans to raise about $2,500,000 through issuance of new securities later in 1954. **Underwriter**—McCormick & Co., Chicago, Ill.

★ **Glitsch (Fritz W.) & Sons, Inc., Dallas, Texas**
April 22 it was reported early registration is expected of 170,000 shares of common stock. **Proceeds**—To certain selling stockholders. **Underwriters** — The First Southwest Co., Dallas, Texas, and A. C. Allyn & Co. Inc., Chicago, Ill.

Granby Consolidated Mining, Smelting & Power Co., Ltd.
March 23 it was announced that the company may find it necessary to sell a bond issue or to issue the balance of its unissued common shares, of which there are 149,739.35 of $5 par value. As the company's shares are now selling on the New York Stock Exchange at about $7.50 per share it is necessary that stockholders on April 13 approve issuance of the unissued shares before they can be sold at a premium. **Proceeds**—To be used for financing Granduc Mines, Ltd., in which Granby owns an interest.

★ **Gulf Power Co. (6/22)**
April 20 it was reported company plans to issue and sell $10,000,000 of new first mortgage bonds due 1984. **Proceeds**—Refund $6,593,000 of outstanding first mortgage 4⅛% bonds due 1983 and for repayment of bank loans and new construction. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co. and White, Weld & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane, Salomon Bros. & Hutzler and Drexel & Co. (jointly); Equitable Securities Corp.; Union Securities Corp. **Bids**—Expected to be received up to 11 a.m. (EST) on June 22.

Indiana & Michigan Electric Co.
Jan. 27 it was announced company plans to sell around November, 1954, an issue of about $16,500,000 first mortgage bonds due 1984 and 40,000 shares of cumulative preferred stock (par $100). **Underwriter** — To be determined by competitive bidding. Probable bidders: (1) For bonds—Halsey, Stuart & Co. Inc.; Union Securities Corp., Goldman, Sachs & Co. and White, Weld & Co. (jointly); The First Boston Corp.; Harriman Ripley & Co. Inc.; Kuhn, Loeb & Co.; (2) for preferred—The First Boston Corp.; Smith, Barney & Co.; Lehman Brothers; Union Securities Corp.

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. **Offering**—Expected in June.

● **Kansas City Power & Light Co.**
March 8 it was announced that company may sell in the latter part of 1954 $16,000,000 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.; Lehman Brothers and Bear, Stearns & Co. (jointly); Kuhn, Loeb & Co., Salomon Bros. & Hutzler and Union Securities Corp. (jointly); Glore, Forgan & Co.; Blyth & Co., Inc. and The First Boston Corp. (jointly); White, Weld & Co. and Shields & Co. (jointly); Harriman Ripley & Co., Inc., Equitable Securities Corp. **Meeting**—Stockholders on April 27 aprpoved new financing.

Kansas-Nebraska Natural Gas Co., Inc. (5/10)
March 24 it was reported company plans to issue and sell 10,000 shares of 5% cumulative preferred stock (par $100) and 85,909 shares of common stock (latter to stockholders on a 1-for-10 basis). **Proceeds**—For expansion program. **Underwriters**—The First Trust Co. of Lincoln, Neb.; and Cruttenden & Co., Chicago, Ill.

Keystone Portland Cement Co.
April 7 it was announced that following a four-for-one split-up of the common stock, a public offering will be made. There are presently outstanding 136,434 common shares, of which 82,274 shares are owned by a group of investment bankers headed by Shields & Co., New York. **Offering**—Tentatively expected early in May.

● **Long Island Lighting Co.**
April 20 it was announced company plans this year to issue $20,000,000 mortgage bonds. **Proceeds** — To finance construction program. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; W. C. Langley & Co.; Blyth & Co., Inc. and The First Boston Corp. (jointly); Smith, Barney & Co.

● **Long Island Lighting Co.**
April 20, Errol W. Doebler, President, announced company contemplates later this year to offer probably about 700,000 shares of common stock to common stockholders, probably on a one-for-eight basis. **Proceeds**—For new construction. **Underwriters**—May be Blyth & Co. Inc., The First Boston Corp. and W. C. Langley & Co. (jointly).

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).

★ **Mansfield Telephone Co.**
April 19 Ohio P. U. Commission authorized company to issue and sell $1,500,000 of debentures, 12,000 shares of 5% preferred stock (par $50) and 22,048 shares of common stock (no par). **Price**—Of debentures and preferred at par; and of common, at not less than $27.59 per share. **Proceeds** — For new construction. **Underwriters** — For common stock, none; the preferred to be sold to residents of Ohio only and the common to stockholders. Debentures will be placed privately through Kidder, Peabody & Co.

★ **Merritt-Chapman & Scott Corp.**
April 23 it was announced company plans to offer additional common stock (about 281,432 shares) to stockholders of record June 25, 1954 on a one-for-five basis (with an oversubscription privilege); rights to expire on July 19. **Proceeds**—For expansion and working capital. **Underwriter**—None.

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).

Montana-Dakota Utilities Co.
March 17 it was reported that company plans to issue and sell late this year some additional first mortgage bonds. **Proceeds**—To repay bank loans and for new construction. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc., White, Weld & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Blair, Rollins & Co. Inc.

National Fuel Gas Co.
April 1 it was reported company plans to offer about 400,000 shares of capital stock (no par) for subscription by stockholders later this year or early next year, subject to approval on April 29 of a proposal to increase the authorized capital stock from 4,000,000 to 6,000,000 shares. **Proceeds**—For new construction. **Underwriter**—Dillon, Read & Co., New York, handled secondary offering in 1943.

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.

New Orleans Public Service Inc.
Feb. 8 it was reported company plans to offer for sale $6,000,000 of first mortgage bonds due 1984 late this year. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Equitable Securities Corp.; Union Securities Corp. and Harriman Ripley & Co. Inc. (jointly); Lehman Brothers; Kidder, Peabody & Co. and Stone & Webster Securities Corp. (jointly); The First Boston Corp.; White, Weld & Co.

Northern Natural Gas Co.
March 29 it was announced company has applied to the Nebraska Railway Commission for authority to issue 365,400 shares of common stock to be offered to stockholders on the basis of one new share for each nine shares held with sale scheduled for May or June. It thereafter expects to market $24,000,000 of sinking fund debentures due 1974. **Proceeds**—For construction program. **Underwriter**—Probably Blyth & Co., Inc., New York and San Francisco.

Northern States Power Co. (Minn.)
Feb. 8 it was reported company is planning the issuance and sale of approximately $20,000,000 of first mortgage bonds due 1984 in October of 1954. **Underwriters** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers and Riter & Co. (jointly); Smith, Barney & Co.; Glore, Forgan & Co.; Merrill Lynch, Pierce, Fenner & Beane, Kidder, Peabody & Co. and White, Weld & Co. (jointly); Equitable Securities Corp. and Union Securities Corp. (jointly); Kuhn, Loeb & Co., A. C. Allyn & Co. Inc. and Wertheim & Co. (jointly).

Ogden Corp., New York
April 1 stockholders approved issuance of $20,000,000 debentures and 300,000 shares of preferred stock (par $50) and increased the authorized common stock from 3,404,135 shares to 5,500,000 shares. **Proceeds**—To complete certain acquisitions and to repay short-term borrowings. **Underwriter**—May be Allen & Co., New York.

Pembina Pipe Line Co. (Canada)
April 14 it was announced company has been granted the right to obtain a permit to build a 72-mile pipe line to transport crude oil from the Pembina Oil Field in Alberta to Edmonton. Financing will be handled jointly by Mannix Ltd. of Calgary, Dome Exploration (Western) Ltd. of Toronto, and Carl M. Loeb, Rhoades & Co. of New York.

● **Pennsylvania Glass Sand Corp.**
April 27 stockholders approved a proposal to increase the authorized common stock from 740,000 shares to 1,000,000 shares. No immediate plans to issue any of the additional stock have been announced. **Underwriters**—Harriman Ripley & Co. Inc., and Smith, Barney & Co., New York.

Pioneer Natural Gas Co.
March 26, P. C. Spencer, President of Sinclair Oil Corp., announced that Sinclair has under formulation plans for the disposal of its holdings of 769,721 shares of Pioneer stock and 384,860 shares of Westpan Hydrocarbon Co. stock. **Underwriter**—Union Securities Corp., New York, underwrote recent sale of Sinclair's holdings of Colorado Interstate Gas Co. stock.

Public Service Co. of Colorado
April 12 it was reported company plans to finance its 1954 construction program through temporary bank loans, with permanent financing delayed until later in the year. Previously, the company had planned to float an issue of $15,000,000 first mortgage bonds, due 1984, early in 1954. **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 New Hampshire**
April 21 it was announced that stockholders will vote May 13 on increasing authorized preferred stock from 160,000 shares to 300,000 shares, of which it is planned to issue not in excess of 75,000 shares. **Proceeds**—To refund outstanding 50,000 shares of 5.40% preferred stock and for new construction. **Underwriter**—If through competitive bidding, bidders may include Kidder, Peabody & Co. and Blyth & Co., Inc. (who made the only bid in June, 1952, for the 5.40% issue, which was rejected); R. W. Pressprich & Co. and Spencer Trask & Co. (who were awarded that issue in July, 1952, on a negotiated basis.

● **Public Service Electric & Gas Co. (5/19-26)**
April 20 company filed an application with the New Jersey Board of P. U. Commissioners covering the proposed issuance and sale of $50,000,000 first and refunding mortgage bonds and 249,942 shares of cumulative preferred stock (par $100). **Proceeds** — From sale of preferred, to redeem a like amount of 4.70% preferred stock, and from sale of bonds, to pay for property additions and improvements. **Underwriter**—For preferred, Morgan Stanley & Co., Drexel & Co. and Glore, Forgan & Co. For bonds, to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co., Inc.; Morgan Stanley & Co. and Drexel & Co. (jointly); Kuhn, Loeb & Co. and Lehman Brothers (jointly); The First Boston Corp. **Bids**—For bonds expected to be received up to 11 a.m. (EDT) on May 26. Offering of preferred stock probably about May 19. **Registration**—Was expected about April 28.

Puget Sound Power & Light Co.
April 5 the directors approved a program designed to refund the company's long-term debt. Bidders may include Halsey, Stuart & Co. Inc.; Lehman Brothers; Stone & Webster Securities Corp.

Rockland Light & Power Co.
April 1, Rockwell C. Tenney, Chairman of the Board, announced that the 1954 construction program, estimated at $14,000,000, will require further financing. Common stock financing to stockholders in 1953 was underwritten by Merrill Lynch, Pierce, Fenner & Beane. An issue of $8,000,000 bonds were also sold last year at competitive bidding, with the following making bids: Halsey, Stuart & Co. Inc.; Equitable Securities Corp.; Kuhn, Loeb & Co.; Stone & Webster Securities Corp.; The First Boston Corp. and Salomon Bros. & Hutzler (jointly); Lehman Brothers; Merrill Lynch, Pierce, Fenner & Beane.

St. Joseph Light & Power Co.
March 30, C. A. Semrad, President, announced that the company may raise new money this year through the sale of $1,000,000 first mortgage bonds or from temporary bank loans for its 1954 construction program, which, it is estimated, will cost $1,661,000. **Underwriters**—May be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Smith, Barney & Co., and Glore, Forgan & Co. (jointly); Union Securities Corp.; White, Weld & Co.; Equitable Securities Corp.

● **Scott Paper Co.**
April 27 stockholders approved proposals which increased the authorized common stock from 5,000,000 to 10,000,000 shares and the authorized indebtedness of the company from $25,000,000 to $50,000,000. The company has no specific financing program. **Underwriters**—Previous offering of $24,952,800 3% convertible debentures, in September, 1953, was underwritten by Drexel & Co., Smith, Barney & Co. and Merrill Lynch, Pierce, Fenner & Beane.

Scudder Fund of Canada, Ltd.
Jan. 29 it was announced company intends to make an initial public offering of its common shares in the United States to realize at least $5,000,000.

★ **South Pittsburgh Water Co.**
April 15 Pennsylvania P. U. Commission authorized company to issue $7,300,000 of bonds and $4,550,000 of preferred and common stock. Expected to be placed privately. **Proceeds**—To repay bank loans and for new construction.

Southern New England Telephone Co.
March 26 it was reported company, in addition to debenture financing, plans to issue and sell to its stock-

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holders about $10,000,000 of additional common stock (par $25). **Underwriter**—None.

Southern New England Telephone Co.
March 26 it was reported company plans issuance and sale of about $15,000,000 debentures. If competitive bidders may include Halsey, Stuart & Co. Inc.; Lehman Brothers and Salomon Bros. & Hutzler (jointly); Kuhn, Loeb & Co.; The First Boston Corp.; Merrill Lynch, Pierce, Fenner & Beane; White, Weld & Co. and Kidder, Peabody & Co. (jointly); Morgan Stanley & Co. **Offering**—Expected in May or June.

● **Southern Pacific Co. (4/29)**
Bids will be received by the company in New York up to noon (EDT) on April 29 for the purchase from it of $7,905,000 equipment trust certificates, series NN, dated April 15, 1954 and due annually to April 1, 1969. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Kidder, Peabody & Co.

● **Southwestern Gas & Electric Co. (6/8)**
March 8 it was announced company plans to issue and sell $10,000,000 first mortgage bonds. **Proceeds**—To refund bank loans and for new construction. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Equitable Securities Corp.; Lehman Brothers; Blyth & Co., Inc.; Kuhn, Loeb & Co.; Merrill Lynch, Pierce, Fenner & Beane and Union Securities Corp. (jointly); Harriman Ripley & Co. Inc.; The First Boston Corp. **Bids**—Expected to be received on June 8. **Registration**—Was expected April 23.

Sutton (O. A.) Corp., Wichita, Kan.
Feb. 15 it was reported company may do some financing later this year, either public or private. **Business**—Air circulating equipment, etc.

Tennessee Gas Transmission Co.
Jan. 27 it was reported company plans issuance and sale of $20,000,000 of debentures in June and $25,000,000 of first mortgage pipe line bonds in July. **Proceeds**—For new construction. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Stone & Webster Securities Corp. and White, Weld & Co. (jointly).

● **Texas Eastern Transmission Corp.**
April 27 stockholders approved a proposal increasing the authorized common stock from 7,500,000 shares to 10,000,000 shares (par $7). **Underwriter**—Dillon, Read & Co. Inc., New York.

Toledo Edison Co.
April 20 stockholders voted to increase the authorized cumulative preferred stock from 300,000 shares to 500,000 shares. The company does not plan to do any financing at present. **Underwriters**—The First Boston Corp., New York, and Collin, Norton & Co., Toledo, Ohio.

Trans-Canada Pipe Lines, Ltd.
March 26 it was annouced that the cost of the building of the proposed cross-Canada gas pipeline would be approximately $292,000,000, which would be financed through the issuance of about $36,500,000 each of common stock and debentures and $219,000,000 of first mortgage bonds. **Underwriters**—Lehman Brothers and Wood, Gundy & Co., Inc., both of New York.

Transcontinental Gas Pipe Line Corp.
March 16 it was reported company plans later this year to do some permanent financing to repay temporary bank loans necessary to pay for new construction estimated to cost about $11,000,000 for 1954. **Underwriters**—White, Weld & Co. and Stone & Webster Securities Corp., both of New York.

Tri-Continental Corp.
March 30 stockholders voted to reclassify 500,000 shares of presently authorized but unissued $6 cumulative preferred stock, without par value, into 1,000,000 shares of a new class of preferred stock, $50 par value, making possible a refunding of the outstanding $6 preferred stock at an appropriate time, when conditions warrant. **Underwriter**—Union Securities Corp., New York.

★ **Vanadium Corp. of America**
April 20 it was reported company plans to issue and sell $5,000,000 of convertible debentures. **Proceeds**—To repay bank loans and for working capital and expansion. **Underwriter**—Kidder, Peabody & Co., New York. **Registration**—Expected in near future.

West Coast Telephone Co.
April 13 stockholders voted to create an issue of 100,000 shares of $1.28 cumulative preferred stock (par $25) **Proceeds**—To repay bank loans and for construction program. **Underwriter**—Blyth & Co., Inc., San Francisco, Calif.

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

West Texas Utilities Co.
March 8 it was announced company plans to refund its $5,500,000 bank loan in the Spring of 1955 through the issuance and sale of first mortgage bonds. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc. and Salomon Bros. & Hutzler (jointly); Merrill Lynch, Pierce, Fenner & Beane; Equitable Securities Corp.; Glore, Forgan & Co.; Kuhn, Loeb & Co. and Lehman Brothers (jointly); Kidder, Peabody & Co.; The First Boston Corp.

Western Pacific RR. Co.
March 10 company applied to the ICC for exemption from competitive bidding on its proposed $22,500,000 debenture issue. The 30-year 5% income securities, would be offered in exchange for 225,000 of $100 par preferred stock, of the more than 300,000 shares outstanding. The company plans to offer $100 of debentures, one-fifth of a share of common, and an undetermined cash payment for each share of preferred stock and then redeem the then remaining outstanding 83,211 shares of preferred stock.

Westpan Hydrocarbon Co.
See Pioneer Natural Gas Co. above.

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Recession to End Soon, but Full Recovery May Be Delayed

marked an increase in consumers' stocks of durable goods, a fairly long pause in spending may be necessary before the forces of recovery can reassert themselves. Second, there is some fear that we have available today no great new expansionary force capable of quickly lifting business out of the current recession into another period of rapid expansion. With respect to the latter, it is true, of course, that some of the economic stimuli which supported the surge upward in business during the postwar years have pretty much worn themselves out. The big postwar backlogs of demand, the great deficiencies of supplies and the colossal deficits in plant capacity accumulated during the war have, to be sure, now been filled. The post-Korean buildup in defense activity is behind us with the trend in government outlays now down instead of up. And, finally, inflation is no longer with us as a great stimulating force in the economy. But it does not necessarily follow that there is available today no great force capable of giving the economy a push upward from recession. On the other hand, there are several expansionary forces which could, if we but plan it that way, provide the basis for another great period of prosperity and expansion in our economy.

First and foremost is tax reduction without unbalancing the budget and deliberately designed to stimulate investment. If used wisely, tax reduction is by far the most potent stimulant in the whole arsenal of counterdepression techniques. It would permit the people to spend some of their funds now taken by the tax collector. It would permit business to finance the continuation of its plant and equipment programs more largely and more soundly from retained earnings. And there is more than a possibility that a steady diet of tax reduction would so stimulate business as to lift government revenues to a level where we would be able to make, in the course of time, a substantial reduction in our public debt.

Second, is private investment of private savings. This country grew to greatness not because of Federal Government expenditures of funds taken from the people either through high taxes or inflation but because of business employment of privately saved funds in building new and improved capacity. We have for a long while been following tax and other policies which represent a raw deal for the saver and for the investor as well. Now we are presented with an opportunity to remove the restraints and barriers on savings and investment and to adopt some powerful incentives to increase the volume of saving and to insure that such savings will help to expand our economy.

Third, is sound money. Economic history is replete with irrefutable evidence that industry and trade prosper in an atmosphere of sound money and can be wrecked by unsound money. Therefore, we can be sure that a return to sound money, after a long period of experimentation with inflationary gadgets, deficiteering and abnormally easy money, would give a powerful lift to our economy. This does not mean that growth in the money supply should be less than needed for the sound expansion of the economy. But it does mean that in any phase of readjustment we must avoid the temptation to cut taxes substantially before government outlays are reduced and that, while money should be kept moderately easy, it should not be so easy as to raise the spectre of inflation.

Fourth, is population growth. Population growth is a powerful factor which is widening our markets in the broadest sense, for a new and spectacular upsurge in population has been under way for some time in this country, and in most other nations. It shows no signs of slowing down and it has confounded almost all of the population prophets. Population growth provides a solid base for optimism in long-range planning by business. It can support our economy during periods of temporary readjustment and recession. And it assures that the markets of the future will grow at such a rapid rate that, if our policies are right, we can look forward to a long period of sound economic expansion.

Finally, is the technological revolution. The finest educational system in the world has provided a wealth of talent to man our research laboratories which has made it possible for business to employ scientists with every prospect that they will, in time, invent new industries and new ways of cutting costs. The technological revolution in medicine provides assurance that population can and will grow faster than it has in the past and that worker efficiency can be increased materially. The technological revolution in agriculture assures that we will be able to provide more and better foods and other raw materials for a rapidly growing population. The revolution in metallurgy leaves no reason for doubt that the basic raw materials for industrial progress will be neither costly nor short in supply. And the technological revolution in industrial processes means that real costs can be cut so that our markets can be wider and still more new industries will be developed to raise the standard of living of our people.

The New Program

Under the circumstances, it is of the highest importance that our new Administration has produced a most businesslike and statesmanlike economic program. The new program provides for the substitution of confidence for inflation as the great stimulative factor in our economy. It provides a new anti-depression program depending on the stimuli of tax reduction and sound money instead of just "full employment through full inflation." It has rededicated our government to the creation of a climate for free enterprise which will insure the full use of our new technology in expanding our productivity and our production. And the conservative climate now prevailing in both political parties gives every reason for optimism that, given time, the new economic program of our new Administration will be adopted as basic policy and carried to completion. Therefore, it is possible now to predict that over the years ahead:

(1) The government will gradually get out of private business and the bureaucrats will get out of the hair of the businessman.

(2) Taxes will be reduced so that the people will be able to spend and invest more of their own money instead of having the government spend their money for them.

(3) The tax system will be remodeled so as not to penalize the saver and the investor, and

(4) Our money will be made sounder and stronger than it has been for many years.

With such a prospect how can anyone take a pessimistic view of the long range outlook? Even if the current recession were to last a bit longer and to be a bit deeper than hoped for, we have every reason for confidence that the economy will not nosedive into deep and prolonged deflation and that when the readjustment process finally is completed, the country will emerge into still another period of great progress and real prosperity.

There isn't anything wrong with U. S. business that the Administration's new economic program can't cure.

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Some Aspects of the Business Situation

with the increased schedule of automobile production may be straws in the wind. The cheap money policy and the reductions in taxes should prove an effective stimulant to business. If there is need for more radical government measures, the Administration will undoubtedly put them into effect.

The gradual transition from high war-time expenditures to lower government spending is being accomplished in an orderly fashion and is proof of the underlying stability of the economy. This stability is supported by a recent estimate of net corporate earnings for the current year amounting to about $18 billion, which is a reduction of only 10% from 1953.

Any survey of our economy is naturally predicated on the assumption that the international situation will not deteriorate further. While we have reduced our overall expenditures for military and economic aid, we have increased our share of the financial burden of the Indo-China war. The Administration's foreign aid requests for next fiscal year total $3.5 billion. Of this the largest single item was $1.1 billion for the Indo-China war.

The economic strength of the free world has been growing, but a worsening of the situation in Indo-China or elsewhere could upset calculations. This war in Southeast Asia, if lost, would have attendant implications for Thailand, Burma, Indonesia, Japan and the Philippines. Nor should we forget such other trouble areas as Korea, Egypt, and the Middle East which might affect us materially. Overshadowing even these critical situations is the delicate position of the Western European democracies, whose economic stability and political security are so essential to our own. We can share the optimism of the President not only in the basic strength of our economy but also in the confidence that our country will undertake intelligently and courageously to solve these international problems.

In this country our recipe for success is the combination of hard-working people and able management and in the cooperation of these groups with government, so that conditions will be favorable for an expanding economy. This means the expanding of capital investment. Continued investment is necessary to give the working man more and better tools, in order that he may become more efficient in production and have greater leisure to enjoy an increasing share in that production.

Our Reporter's Report

Mounting evidence that the Ad-
ministration is committed to an
asy money policy for the long
ook ahead does not appear to be
arrying any great weight with
arge investors who have funds to
ut to work.

**At any rate in spite of multi-
lying indications that low inter-
st rates will prevail for a con-
iderable period, the bond market,
otably the new issue end of the
usiness, does not appear able to
et off "dead-center."**

That is apparent from the early
eception accorded Common-
ealth Edison Co.'s $50,000,000 of
ew 30-year first mortgage bonds
eing offered on a 2.98% yield
asis. The issue is rated "Triple
" and was sold to a banking
yndicate at a price of 99.829 for
3% coupon.

Before bids were opened ideas
the market place seemed to be
hat the issue could be sold readi-
y on a 3% yield basis. Yet with
he potential return only two basis points off that level, some institutional buyers and pension funds maintained their recent aloofness.

This notwithstanding, the fact that one-third of the issue was spoken for on the initial reoffering is far from unsatisfactory in view of the substantial size of the undertaking.

Northern Illinois Gas

With the stock market bouncing along around the highest levels in a quarter century new equity offerings appear, at the moment, to enjoy better reception than debt securities.

An illustration was the response to yesterday's offering of 400,000 shares of common stock of Northern Illinois Gas Co. priced at 15¾.

The current operation is designed to establish a market for the shares of the new firm, set up through segregation of Commonwealth's gas properties, so as to permit potential recipients of 5,892,484 shares owned by Commonwealth Edison Co. (which is destined to be distributed to the latter's holders) to decide whether they wish to take the stock or have it sold for them.

Great Oaks, Little Acorns

Not many years back pension funds were but a minor factor in the new issue market. But all that has changed and today these new and growing aggregations of investment capital have become a major force in deciding the fate of issues coming to market.

If the terms offer the inducement sought by such buyers its quick success is assured. But, if the opposite is true, then the sponsoring group finds it has a "worker" on its hands. The large insurance companies are, of course, still a major influence to be reckoned with.

But the latter segment, due to its extensive activities in other fields of investment, is not quite the factor it was once. Large scale undertakings directly with corporations, and its long-standing outlet, the real estate mortgage field give it much more elasticity than pension funds have yet developed.

Facing the Situation

With several more large revenue bond issues, to finance road-building, being readied for market, on top of the steady stream of municipal offerings in prospect, dealers have been moving to make a dent in the substantial inventories piled up on their shelves.

They have been cutting prices on the backed-up accumulation in an effort to free up capital so as to be able to participate in the business which is ahead.

This shading of prices in the municipal field naturally has increased competition with the corporate bond end of the business.

Directors Elected by Colgate-Palmolive

JERSEY CITY, N. J.—The Colgate-Palmolive Company at the company's annual meeting re-elected 12 directors and elected three new directors to fill existing vacancies on the board. The new directors are: Frederic H. Brandi, President of Dillon, Read & Co., Inc., New York City, who is also a director of C. I. T. Financial Corp., Union Oil Co. of California, Interchemical Corp., and Robbins Mills, Inc.; Herbert O. Peet, partner in H. O. Peet & Co., Kansas City stock brokers and investment bankers, and an officer and director of Peet Brothers Company at the time of its merger in 1926 with the Palmolive Co.; and H. W. Reynolds, General Counsel of Colgate-Palmolive since 1946 and a Vice-President since 1952.

Central Republic Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Joan L. Benzion has been added to the staff of Central Republic Company, 209 South La Salle Street, members of the Midwest Stock Exchange.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—It is a pretty good bet that in due course some hefty attention is going to be paid to the role which T. Coleman Andrews played as the star curtain raiser on one of the two acts of the over-billed Great Housing Scandal of 1954.

At the moment the political wolves are preoccupied with tearing apart and making away with juicy political morsels from the body of the Federal Housing Administration. So for the present the apprehensions about the conduct of the Commissioner of Internal Revenue are confined to thoughtful people in the accounting and legal professions who practice in the tax fields.

Mr. Andrews, however, might be reminded that when tossing bones to the wolves it is a good idea to take care that the pack does not turn upon the giver.

There is a feeling among the learned in the tax law that Mr. Andrews, while he may not have stepped over the legal line, has at least breached an old and well-established tradition. It is a tradition that held reasonably firm even during the New, Fair, and/or Raw Deals.

This tradition is that the information which the Internal Revenue Service, nee Bureau of Internal Revenue, collects, is none of the business of any other agency of government, the public, or the politicians, except under certain tightly-regulated circumstances.

Tax System Is Based on Self-Assessment

This tradition is founded upon the very practical fact that the individuals and businesses of the country assess themselves and determine their own tax liability insofar as they can accurately so determine under the laws.

This remains true even though the citizen is compelled by law to reveal to the Internal Revenue Service every pertinent fact which bears upon his tax liability.

So herculean is the job of self-assessment, that the present income tax can be collected practicably only on that basis. If the Internal Revenooers had themselves to examine and investigate the details of even 20% of all tax returns, then the country would be more overrun with tax agents and snoopers than Ireland was with snakes before St. Patrick.

Hence, the firm tradition of the secrecy of personal and corporation income tax data. No matter how illegal a man's business is under laws other than those that apply to taxation, the individual's enforced admission of his illegal business may not be revealed to any other Federal agency nor may be seen by any other than an Internal Revenue official.

As a specific example, the Narcotics Bureau, like the Internal Revenue Service, is a part of the Treasury. Narcotics agents are on the hunt for dope peddlers, wholesale and retail. Even though the Narcotics Bureau is a part of the Treasury, no narcotics agent is ever allowed to examine the income tax return of an individual who expressly admits he is a dope peddler and that his income from same is X dollars, when filing his Federal income tax return. So long as the dope peddler accurately lists his income tax data, he is immune from further molestation by government by reason of having made such an admission on his income tax.

Promotes Tax Collection

To an uninformed layman, that might not make sense. To an extravagant government, this makes the soundest kind of sense.

This is because it promotes tax collection. Criminals, profiteers, Democrats and Republicans, reveal all on their income tax returns (or enhance the risk of discovery if they do not), secure that having done so their machinations will not be tipped off to the other police forces of government, Federal or state.

Andrews Reveals Title VI Operator Profits

In this case, however, the alledged scandals of builders or apartment house operators under Title VI stems directly and entirely from the initiative of T. Coleman Andrews, Commissioner of Internal Revenue. Nobody in either Congress or the Administration suggested he run down this thing and reveal a stink. Under the firm tradition of Internal Revenue he would have been entirely justified in refusing a suggestion of this nature, whether it came from Congress or the White House.

The record in this case, however, discloses that Mr. Andrews was not even asked. He thought it up all by himself.

Thus on April 20 Senator Harry Byrd, the Chairman of the Joint Committee on Non-Essential Federal Expenditures, stated at the opening of the hearing that some time in May, 1953, Heywood Bell of the staff of the committee "was informed by Mr. Andrews, Commissioner of Internal Revenue, that the records of the Internal Revenue Service indicated unconscionable profits" by Title VI operators and "he inquired whether the Joint Committee," etc., "was interested in information respecting these housing program windfalls."

Harry Byrd told the committee, in effect, that he eagerly took the bait. Mr. Andrews himself confirmed that he had made the approach.

Also on April 20, Albert M. Cole, Housing and Home Finance Agency Administrator, testified in "open court" before the Senate Banking Committee that he was approached in his office on Aug. 6, 1953 (three months after Byrd got the scoop) by an attorney from the Internal Revenue Service.

Study Was Thorough

It was clear that Mr. Andrews had obviously poured over every income tax return in which there was Title VI business, for he came up with the most comprehensive and detailed report of exactly 1,149 cases, complete with all the alledgedly gory details. It was not until the information was enjoyed by all that the White House, determining to capitalize upon same, made it legal under Sec. 55 of the Internal Revenue Code by issuing an Executive Order thereunder releasing secret information to the Banking Committee of the Senate. (Note, Senator Byrd, sometimes considered more canny than Senator Capehart, refused to receive information identifiable by individual taxpayer of these windfall cases. Black paper was pasted over the names in the copies furnished the Virginia Senator.)

Pending in Court

Another collateral angle of this maneuver was that it just could accidentally have had the effect of attempting to influence the Tax Court. The tax issue was whether these "windfalls" were taxable to the promoters as ordinary income or as capital gains. IRS ruled they were ordinary income. In the Gross case the taxpayer appealed the IRS ruling to the Tax Court Jan. 5, 1953. The case was (and is) still pending in that court when Mr. Andrews took action which had the effect of inflaming Congress and public opinion against these taxpayers.

Blasts Building Industry

Persons who have examined the file allege that the average of windfall profits on about 1/6 of Title VI projects was around 6% above costs. This does not strike long students of easy money housing as remarkable, who are amazed that this unabased invitation under the Title VI for builders to profit on guaranteed loans was not much more abused.

Nevertheless, the "reckless investigation" has tarred all Title VI operators with ignominy, probably has damaged the reputation of the building industry generally, and certainly has cast suspicion upon any number of rudely cast out FHA officials, regardless of the degree of their culpability or negligence.

In other words, as the building industry probably would see it, Mr. Eisenhower does not carry for that industry the same compassion against innocent bystanding from Congressional investigations that it does for well-meaning if innocent dupes of the Communist movement when investigated by other committees.

What thoughtful tax men see as the danger of the able Mr Andrews' zeal is that if this practice should carry forward in other fields, many taxpayers would rather risk prosecution for tax fraud than discovery and ignominy from the Internal Revenue Service.

It might cut another way. It is possible that some years hence there might be a fictitious "Hubert Alelaide," a darling of the Americans for Democratic Action, who would come to occupy the White House, and who could appoint an ADA adherent as Commissioner of Internal Revenue.

About that time "Hubert Adelaide" might get fed up with the obstruction of Harry Byrd to the "X" Deal of the new Administration. Perhaps the Commissioner of Internal Revenue could minutely examine the returns, say, of the five largest apple growers in Virginia. He might conclude as a result of this examination that there were glaring instances of under-assessment of personal income taxes by these apple growers, "and that at least one of them owes a million in back taxes for the past five years."

If this were fed to a Congressional investigation on the eve of a primary in which the ADA were contesting the power of, say, a Byrd political organization in Virginia, it could prove as useful as in the Great Housing Scandal of 1954.

[This column is intended to reflect the "behind the scene" interpretation from the nation's Capitol and may or may not coincide with the "Chronicle's" own views.]

BUSINESS BUZZ

"Never sign a 20-year contract with this firm, Pettingill, unless you read all of the fine print!"

Connecticut to Offer $100 Million Toll Road Bonds on May 11

The State of Connecticut Expressway Bond Committee, headed by Governor John Lodge and State Treasurer Joseph A. Adorno, will offer at public sale at 11 a.m. (DST) on May 11 an issue of $100,000,000 "Expressway Revenue and Motor Fuel Tax Bonds, Greenwich - Killingway Expressway, First Series." Lehman Bros., New York City, are the State's financial consultants for the project which will eventually entail the issuance of $350,000,000 bonds, of which $48,000,000 will provide for a reserve fund and interest. The balance of the bonds will be sold from time to time over the next two or three years as additional construction funds are needed.

Business Man's Bookshelf

Case Against Secondary Boycotts, The—National Electrical Manufacturers Association, 155 East 44th Street, New York 17, N. Y. (paper).

Institute of Life Insurance: Report of 15th Annual Meeting—Institute of Life Insurance, 488 Madison Avenue, New York 22, N. Y. (paper).

President's Program for a Foreign Economic Policy, The—United States Council of the International Chamber of Commerce, Inc., 103 Park Avenue, New York 17, N. Y. (paper), 50 cents.