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EDITORIAL

As We See It

"At present the economic system of the free world is not in good shape. Without vigorous and imaginative action it is likely to get worse rather than better." In these words, Dean Acheson, former Secretary of State, sets forth his idea of the way things have been going. The occasion was one of those "Jefferson-Jackson Day Dinners" at which various influential and hopeful Democrats usually say all the harsh things they can think of about the Republican party and come forward with proposals they think will attract favorable attention among the voters.

Mr. Acheson's notion of what is wrong with the economic system of the free world may be garnered from certain further remarks made at this same dinner. He says that "the productive capacity of the United States—and the same is true of Europe—is not great enough, without stimulated growth, to perform the tasks which lie ahead"—and this at a time when a good many industrialists are beginning to wonder if they have not gone too far in enlarging plant in anticipation of a long continuation of extraordinary demand. The statement is made, too, in face of the fact that even the school boy knows that our capacity to produce agricultural products—and for that matter our actual production of them—is far in excess of demand, so much so in point of fact that the Federal Government under both the party of Mr. Acheson and the Republican party have been laying out billions of taxpayers' money in order to save the farmer from the natural consequences of his overproduction.

He further adds—in language the real meaning of which is not always very clear—that "today

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Recession With Inflation

By ROBERT C. TYSON*
Chairman, Finance Committee
United States Steel Corporation

U. S. Steel finance official attacks anti-employment bias said to be contained in our tax system and calls for tax reform rather than "blind resort to what amounts to printing press money which would only aggravate an inflation which has already become institutionalized too much in America." Mr. Tyson warns we will condemn ourselves to chronic unemployment unless, before it is too late, we so reform our taxes so that we encourage job creation, production, savings and investment. Also believes there is no "moral basis" for taxing the more productive with higher tax rates, and recommends a more realistic consideration of depreciation allowances.

Over the past year the volume of industrial production has been seriously decreasing and unemployment has been increasing. But at the very same time we have been experiencing inflation in basic employment costs and in prices. This simultaneous decline in production with the rise in costs and prices is a relatively new and disturbing thing in our history. It has ominous connotations. Certainly it needs analysis and understanding if suitable remedies are to be sought and applied. Otherwise there is always the danger that some hastily concocted panacea may be adopted which will aggravate rather than improve the situation. And, I am sorry to say, such danger is not a matter of mere academic fancy in view of some of the proposals being advanced. I think then that we would be well advised to discover just how we got into this situation if it is to be dealt with in an appropriate manner. This is not easy for management people as such to do because we will have to think in terms quite different from


R. C. Tyson

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*An address by Mr. Tyson before the Executives Club of the Greater Boston Chamber of Commerce, Boston, Mass., April 18, 1958.

Quarterly Investment Company Survey

Funds Intensify Their Defensive Investing Trend

By A. WILFRED MAY

Analysis of investment companies' portfolio operations during first quarter of 1958 reveals rising ratio of sales to purchases of common stocks as recession unfolded. Erstwhile enthusiasm for "growth stocks" markedly dampened. Buying, which was liberally devoted to "defensive" issues, was concentrated on banks, insurance, finance companies, gold mines, office equipments, foreign oils, papers, steels, and tobaccos; with some buying also noted in airlines, foods, insurance, nickel, retail, and certain automotive issues. Mixed attitude displayed toward aluminum, building, chemicals, containers, drugs, electronics, copper, domestic oils, rails, textiles, tires, and utilities.

[*Tables appearing on pages 35 and 36 show Funds' comparative investment positions; total common stock and other securities transactions; and individual common stock transactions by industry groups.*]

During the first quarter of this year, with the stock market fluctuating between 12 and 16% below its all-time high, the investment companies accelerated their liquidation of portfolio common stocks, although in the case of the open-end funds sales were still substantially outweighed by purchases. Significantly, the closed-end managements, which are free from the constant pressure of new investible moneys flowing in from shareholders, sold portfolio equities on balance, reversing the previous trend.

While open- and closed-end companies here under review increased their purchases of portfolio equities from the preceding quarter, they stepped up their sales to a considerably greater extent. Sales rose from $145 million to $237 million, purchases only from $244 million to $290 million. Thus, their net purchase balance actually decreased for the third successive time since the beginning of the "bear market." In fact, in the latest

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STANY PICTORIAL SECTION—See Section Two for candid photos taken at the 22nd Annual Dinner of the Security Traders Association of New York.

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.)

DONNA M. HOSTETLER

Manager, Research Department

Hill Richards & Co., Los Angeles, California

Thrifty Drug Stores Co., Inc.

Thrifty Drug Stores Co. Inc. is the security I like best because, far from resting on the enviable growth laurels the company has won, the management is giving every indication of stepping up the pace of the company's expansion.

Donna M. Hostetler

To trace the Thrifty story briefly from its beginning, the company was started as a drug wholesaler in 1919 and it opened its first retail store in 1929. Since then, there has never been a year in which the company has not grown in both volume and net worth. The fiscal year through August, 1957, was thus the 28th in succession in which the number of stores, dollar sales and book value have reached new highs, and all indications are that fiscal 1958 will make it 29 in a row.

In the 12 months through last August, sales were $86.7 million and net income was $2.19 on each of the 900,000 shares outstanding. Stores in operation on Aug. 31 numbered 129, up from 123 a year earlier. While Thrifty is the second largest retail drug chain in dollar sales, its average sales per store exceed those of the largest chain by 25% or more. Sales per store in fiscal 1957 averaged $672,000, up from $608,000 in the previous year. On Aug. 31, 1957, working capital was $12.5 million, including cash items of $5.5 million.

All new highs, the foregoing figures are all likely to be replaced by a still higher set by August, 1958. In the six months through Feb. 28, 1958, sales were $48,705,000 or 12% above those of the first fiscal half in the previous year and earnings advanced to $1.33 per share or somewhat more than 12% from the $1.17 a share in the six months ended Feb. 28, 1957. For the full fiscal year, sales may approximate $96 million, and it would be surprising if net income did not top $2.50 per share.

The expansion program which the management has cut out for itself is, however, at least as impressive as the record to date. With 132 stores now in operation and four more definitely scheduled to be opened by August, the company could well have ten new stores by next Christmas, seasonally the biggest time of year for the company, which has branched so far out into general merchandise that it may be more properly regarded as a variety or junior department store rather than as a drug chain. Thrifty has 22 locations for new stores under lease and it aspires to a new store rate of 24 openings annually. Whether this rate will be attained in fiscal 1959, 1960 or 1961 will depend upon many unknowns, among them money rates, the general economic climate and the availability of desirable store locations. Suffice it to say that the management aim is high and that the record of achievement so far imparts an unmistakable note of realism to the ambitious program.

Dividends on the common stock in each fiscal year have been uninterrupted since the first payment was made in 1937. Although the rule has been conservatism in dividend payments because of expansion needs, the rate has been progressively increased from 50¢ annually two years ago to $1.00 at present.

At less than eight times estimated earnings, where it yields better than 5%, the stock, traded in the Over-the-Counter Market, appears to be in a position to give a good account of itself as the forthcoming wave of expansion takes shape.

MILTON PAULEY

Troster, Singer & Co., New York City

Mallinckrodt Chemical Works

Careful study of Mallinckrodt Chemical Works (39 Over the Counter) clearly indicates to the writer that its stock has largely been overlooked, possibly because of insufficient publicity. We have been unable to find any comparable high-grade chemical company whose common stock can be purchased anywhere near book value, let alone below the net working capital per share. If to this fact we add that in the last six years the company has ploughed back and spent out of earnings (not capitalized) approximately $8½ million or $23 per share for research and start-up costs for new facilities, the above conclusion appears even more obvious.

Milton Pauley

Mallinckrodt was founded in 1867. It is one of the foremost producers in the United States of ether and highly refined chemicals used by pharmaceutical and photographic companies. It is also a prime producer of synthetic narcotics and, since 1942, has been the leading refiner and processor of rare chemicals and compounds used by the Atomic Energy Commission. Its reputation in the field of refining chemicals to very high degrees of purity is high; some judge it to be the leader of the industry. It is said that Mallinckrodt's excellence in this field first persuaded the AEC to choose it to produce the highly refined chemicals so necessary in the building of the first atomic energy pile.

At present, in fact, Mallinckrodt operates, under a four year fixed fee, $50 million worth of Atomic Energy Commission facilities. Its annual fee is approximately $780,000 per year from the AEC. All of these $50 million worth of AEC facilities were designed by Mallinckrodt's own engineers. All of Mallinckrodt's research in atomic energy chemicals since 1942 has been paid for by the AEC.

More than 300 of Mallinckrodt's 2,500 employees are chemists or chemical engineers.

In October 1956, Mallinckrodt opened the first atomic energy chemical refining and processing facility. Since then it has shipped these compounds to West Germany, Japan, Canada, Denmark and Argentina and is considered to be the primary commercial supplier of compounds for reactor fuel use.

Mallinckrodt owns a $2.5 million columbium-tantalum refinery with a four year AEC production contract. In February 1958 the company's first commercial shipment of columbium-tantalum oxides was made from this plant, now said to be running well above rated capacity.

In the past four years, Malinckrodt has invested $6,975,116 in new plants and equipment; in the preceding eight years, $7,606,733; in the past 12 years more than $14½ million. Its main plants, warehouses, offices and laboratories are located in north St. Louis, Mo. Company also occupies plants, warehouses and offices in Jersey City, N. J., New York City, and Los Angeles, Calif. A wholly-owned subsidiary, Mallinckrodt Chemicals Works, Ltd., is located in Canada.

"Sales and operating fees totaled $32,613,271 in 1957, an 8.3% increase over the $30,101,540 for 1956. Sales of the company's general line of medicinal, industrial and reagent chemicals were ahead of 1956 despite the continued eliminating of submarginal items. Accompanying the increase in the sales of the general line of commercial products was an improvement in direct sales margin, the result of additional steps to increase the profitability of the company's product line. Of equal importance, the continuing efforts to improve operating procedures held total overhead expenses near 1956 levels, despite higher labor rates, depreciation charges and other expenses." The above remarks are directly from the company's annual report.

The writer is of the opinion that the foregoing facts and following statistics speak decisively for themselves and therefor need no embellishment to explain why Mallinckrodt Chemical Works common, particularly now in these value-sensitive times, is "The Security I Like Best."

	Net Sales	Net Income	Per Share
1957	$32,613,271	$857,361	$1.97
1956	30,101,540	367,182	.66

Current Market	approx. $39
New Working Capital	approx. 42
Book Value	approx. 60
Total Current Assets	19,204,637
Current Liabilities	3,496,338
Net Working Capital	15,708,299
Common Stock—$10 par	A 255,000 shares B 120,000 shares
Indicated Current Dividend	$.80

	Income Before Taxes	Depreciation	Research Expenditures	Available for Research, Depreciation and Earnings
1953	$1,576,638	$559,270	$1,140,586	$3,276,494
1954	605,732	629,057	1,001,255	2,236,044
1955	1,061,945	711,927	1,153,595	2,927,467
1956	738,344	948,811	1,309,808	2,996,963
1957	1,814,447	1,171,686	1,425,489	4,411,622
1958 (est.)	2,500,000	1,400,000	1,600,000	5,500,000

This Week's Forum Participants and Their Selections

Effects of the U.A.W. Profit-Sharing Plan

By W. L. CRUM

Professor of Economics, Emeritus
University of California (at Berkeley)

Professor Emeritus Crum provides an ingenuous analysis of Mr. Reuther's profit-sharing plan using actual data reported by General Motors for the years 1954-57. In making clear the implications and consequences of the "plan" to the firm and its owners, the industry, UAW members, general public, U. S. Treasury and the economy, the author explains why it could: (1) cause labor discontent, resulting from varying wage income for equal work; (2) greatly reduce feasibility of raising long-term capital; (3) impair stockholder and executive incentives; (4) intensify industry's cyclical fluctuations; (5) reduce Federal revenues; (6) distort competitive balance in the industry; and (7) hinder growth and keep costs and prices up. Advises rejection and adds, "what's bad for GM, or for the automobile industry, is bad for the country."

Although Walter P. Reuther, for perfectly obvious reasons, evidently is content to drop his profit-sharing demand on the automobile industry in current contract negotiations, this of itself is no assurance that he has abandoned the scheme permanently. Accordingly, it is the more desirable to place in the record at this time Mr. Crum's exhaustive analysis of the probable impact of Mr. Reuther's proposal on the auto companies per se, their stockholders, the Government and our entire economy.—Editor.

In preliminary publicity concerning UAW 1958 negotiations with automobile manufacturers, Mr. Reuther has outlined a two package approach. The first, the "basic minimum economic demands," calls for a very large increase in wages and many other concessions from the companies. The second, the "supplementary economic demands," calls for "profit sharing." The present discussion is concerned with this second package, hereinafter called the Plan. The Plan, as outlined in press reports of Mr. Reuther's presentation of the scheme, with particular reference to General Motors, calls for sharing the profits — before taxes and before executives' bonus but after deducting 10% of the Company's capital—with 25% going to UAW (presumably to its members employed by GM) and 25% going to GM customers, and with 50% left for disposition by the Company in the usual manner. I undertake in this article to examine some of the important consequences of the Plan, using figures for each of the four years 1954-57.[1]

W. L. Crum

The basic figures are taken from the annual reports of the Company. The method of deriving other figures used in the analysis is illustrated for the year 1956 in a table at the end of the article, and the procedure is exactly similar for the other years. Various assumptions, which I need to make in the course of the analysis, are set forth at the appropriate points.

The article, after commenting upon the two beneficiaries of the Plan (the UAW and the GM customers), presents nine sections each concerned with a victim of the Plan. These victims include the U. S. Treasury, the GM common stockholders, GM executives, the financial soundness of GM, the efficiency of the GM business, the cyclical stability of the automobile industry, the competitive balance within the industry, the members of the UAW (despite their ostensible short-run gains), and the general public. The vast damage to these various victims, and particularly to the Federal Treasury and the general public, should lead to emphatic rejection of the Plan.

I

First Beneficiary—The UAW

Press reports of the Plan have not made entirely clear whether the UAW share in the profits is to go to the UAW organization, to be held in a trust fund or perhaps used for various organization purposes for the supposed benefit of the members, or is to go to the individual members who are employed by GM. In any case, we can appraise the magnitude of the UAW share by comparing it with the existing GM payrolls for hourly-rate employees at plants in the U. S. — a group presumably about identical with UAW members employed by GM.

According to press reports, the Plan would start out with the figure for GM earnings of the year, before taxes and before the existing provision for the bonus of certain salaried employees. From this amount, the Plan would deduct 10% of the net capital —

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1 I am grateful for helpful suggestions made by my colleagues, Professors O. R. Goodman and F. P. Morrissey; but I assume sole responsibility for the computations and the analysis, and for opinions expressed.

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Regular Features

†See cover page article entitled "Funds Intensify Their Defensive Investing Trend."
*See Mr. May's article on cover page.
‡Column not available this week.

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The Tranquil Rise of Carter Products, Inc.

By DR. IRA U. COBLEIGH
Enterprise Economist

Setting down some observations on the recent history of this unusual drug company, and some reasons why investors might be attracted to its stock.

A board room wag once remarked: "One way to pick a good stock is to open your medicine cabinet." Although spoken in jest, the remark actually contains quite a bit of sense. Vick's Vapo-Rub, Sal Hepatica, Palmolive Shaving Cream, and Bi-So-Dol, all household words, direct you to such distinguished companies (and excellent stocks) as Vick Chemical, Bristol-Myers, Colgate-Palmolive, and American Home Products. A further inspection of the medicine cabinet might reveal Carter's Little Liver Pills, or a bottle of Miltowns, produced by the company selected for discussion today, Carter Products, Inc.


Ira U. Cobleigh

Although the Little Liver Pills of Carter have been known for decades, the public never had the opportunity to become a partner in this long-profitable enterprise until July of 1957, when 500,000 shares of Carter common were publicly offered and eagerly bought at $22 a share; and the issue (totalling 2,690,000 shares) was listed on the New York Stock Exchange last October, trading under the ticker symbol CPI.

Carter is actually a quite old company having started in business in 1880, and having paid dividends on its common since 1883. For years it was a one product company, with the pills piling up the earnings. The 1950's, however, have carried Carter into an entirely new orbit, with net sales and revenues (including royalties) rising from $11½ million for the fiscal 1952 (12 months ending 3-31-53) to $41,836,000 for fiscal 1957.

A number of things have accounted for this remarkable rise in earning power. "Rise" is one of them, a pressurized instant lather reported now to be the second largest selling shaving cream. Another is "Arrid," the largest selling cream deodorant, accompanied by Arrid Men's Spray, a liquid deodorant, and Arrid Whirl-In, a lotion one. There is also Nair, the largest volume seller in depilatories, and Colonaid, a newer laxative introduced in 1956. Arrid, Rise and Nair accounted for about 30% of 1957 sales volume; Little Liver Pills and Colonaid, about 11%.

The most dramatic Carter product, however, has been Miltown, patented in 1955, and rocketing forward to sales of above $24 million for 1957. This renowned tranquilizer is based on Carter's principal ethical drug product, meprobamate. Miltown is a muscular relaxant and a synthetic soother of anxiety, nervous tensions and insomnia. (Perhaps brokers should keep a supply at hand in event of drastic market drops, or urgent margin calls.) The meprobamate powder, of which it is composed, is also sold under licensing agreements (and in consideration of royalty payments totalling almost $2 million in 1957) to American Home Products, Merck, and American Cyanamid. (The Lederle Laboratories division of American Cyanamid distributes Miltown abroad in most countries, except in France and Canada.)

The meprobamate has been a major pharmaceutical break through. It has proved broadly effective in the medical areas for which it was intended, and its prescribed use has not been accompanied by severe reactions or collateral ill effects. Meprobamate represents approximately 30% of the market for tranquilizers in the U. S. Carter also uses it in combination with tridihexethyl iodide in its Milpath, indicated in treatment of gastrointestinal disorders.

Royalty income of Carter Products, Inc. is very important since it accounted for more than 50% of net for the last reported fiscal year. The major royalties from Miltown have already been mentioned but those from Rise should not be ignored. Carter has clearly established its patent right to this pressurized aerated immediate lather process. It has licened 14 manufacturers who, under this process, turn out shaving creams using their own brand names. Some, however, thought that obtaining a licensing under the patent, and paying royalty to Carter was unnecessary. So Carter sued, and carried its case to the Supreme Court. Carter won, and now appears in line (1) to receive damages for past infringements, from Mennen and Colgate-Palmolive, possibly above a million dollars and (2) larger royalties in the future. Of course, there is always the possibility that research may bring out some other equivalent process, which does not conflict with the Carter priority; but until that day comes, Carter has a good thing, and, in any event, is now in line for a windfall payment equal to perhaps 40c a share.

Analysts who have reviewed the corporate progress at Carter have been a little startled that, in so short a time, new products such as Rise and Miltown could so drastically change both the magnitude and profitability of the enterprise. Carter is beginning to look a lot like some of the larger pharmaceuticals. It has shown great prowess in research and manufacture; and it has demonstrated remarkable merchandising talents in bringing new products so rapidly and profitably into volume distribution. Carter does not, however, sell on the same price/earnings ratio as the others. Assuming for example that 1958 earnings will run around $2.30 a share, CPI at 27½ is appraised at only 12 times earnings, against 15 to 16 times for some of the more market-tested drug equities.

This discount may be accounted for because the stock has been on the "Board" less than a year, and because stability of earning power, at levels recently attained, has not yet been sufficiently time tested.

Per share net has moved forward to keep pace with gross income. It was 25c in 1953; 80c in 1956; $1.74 in 1957 and probably $2.25 or $2.30 this past fiscal year (ended 3-31-58). This is a pretty steep rate of acceleration to maintain and a measure of flattening out is expectable due to large outlays for research and stepped up advertising.

Historically Carter Products Inc. has been a proprietary drug company, changing its complexion completely with the arrival of Miltown. While the ethical end of the business has "wagged the dog" in the past couple of years, it would be expected that a management so smart, so sales minded, and so aggressive, would seek a better and evener balance between ethical, pharmaceutical and toiletry divisions. This would assure a higher plateau of earning power and insulate against a severe dip in profits if a leader, such as Miltown, were superseded by some competitor, or by a cheaper substitute introduced.

When so many companies are turning in "tired" earnings statements, and the general business discussion relates to when the recession will "bottom out," it is refreshing to look at a company going forward at such a spectacular pace. Perhaps the business uncertainties elsewhere have bulged the sale of Miltown! However that may be, considerable confidence must be reposed in Carter Products, Inc. and its management on the basis of performance. Investor acceptance here has been rapid, and from a privately held company last July to date, Carter has acquired over 6,000 shareholders who have seen their stock sell above 30, and increase its dividend to the present indicated rate of 80c.

Capitalization couldn't be simpler with the listed common being the sole security. Working capital position is satisfactory. Those who have watched the growth and rise in stature of such companies as G. D. Searle, Merck, American Home Products, may want to take an analytical look at CPI today. It seems to possess most of those qualities that can convert an equity from an attractive speculation to a mature investment issue. On second thought, it's difficult to call a stock a speculation when it has paid consecutive dividends for 75 years. Many authentic "blue chips" haven't done that!

Joins Reynolds Staff

(Special to THE FINANCIAL CHRONICLE)

RALEIGH, N. C.—William K. Tate is now with Reynolds & Co., 120 South Salisbury Street. He was previously with Merrill Lynch, Pierce, Fenner & Smith.

With W. D. Gradison

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, Ohio — Bernard M. Markstein, Jr. is now with W. D. Gradison & Co., Dixie Terminal Building, members of the New York and Cincinnati Stock Exchanges.

With First California

(Special to THE FINANCIAL CHRONICLE)

WHITTIER, Calif. — David W. Thayer is now with First California Company, Incorporated, 117 East Philadelphia Street. He was previously with J. Logan & Co.

The State of Trade and Industry

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

Industrial production the past week presented a more favorable picture than was the case in the week preceding. Electric kilowatt output continued to reflect gains in the latest week with steel production currently scheduled at 50.0% of ingot capacity following declines for five successive weeks.

In the automotive industry last week, passenger car production, according to "Ward's Automotive Reports," scored a 35.8% increase as Chevrolet resumed full-scale operations following a severe one-week shutdown. "Ward's" noted, however, that the industry's severe manufacturing adjustment will persist throughout the summer months a prelude to some of the earliest shutdowns for model changeover seen since the pre-1940 period.

Spot checks by Dun & Bradstreet, Inc. indicated that new passenger car sales were boosted considerably from the previous week by special sales promotions and a noticeable upturn prevailed in the used-car market.

Retail trade for the country as a whole ranged from 2% below to 2% above the similar calendar week a year ago, Dun & Bradstreet, Inc., reported. It added that consumer buying was uneven in the period ended on Wednesday, a week ago, but equalled or edged slightly above that of a year ago.

Cold wet weather hampered sales in some areas, while special promotions bolstered activity in others.

The employment situation for the country as a whole shows a decline for the second week with initial claims for unemployment benefits dipping 3% in the week ended April 19. Most of the decrease was attributed to the fact that fewer workers filed because a new quarter's wage credits had become available. In addition, a seasonal pick-up in food processing and construction activities lightened the California total, while Alabama reported fewer cutbacks in the textile, apparel, rubber and transportation equipment industries. The largest week-to-week increases occurred in Michigan, Illinois, Missouri, New Jersey and Pennsylvania.

In the steel industry, steel stocks in the hands of metalworking companies may be approaching the danger point "The Iron Age," national metalworking weekly, reported on Wednesday of this week.

An analysis of steel users inventories based on the increasing volume of last-minute rush orders indicates that steel stocks are nearing rock bottom, this trade authority declared.

Several of the largest mills have told the national metalworking magazine that the current inventory situation approximates that of 1954 just before metalworking companies switched from a policy of inventory reduction to one of inventory buildup.

"At some point in the next month or two, a plant is going to come in and ask for rush delivery of steel," comments one mill official. "The plant will be told it cannot get the delivery it wants. Or it may get a promise but not the actual delivery. If the plant loses production because of the steel delay, it will start thinking about forward booking and more inventory."

If this analysis is true, and if past performance means anything, steel ingot output should jump 10 points in the next eight weeks, steel men say. Monthly steel shipments figure to climb at least one-half million tons in the same period.

Commenting, "The Iron Age" points out that "this is brave talk at a time when mills are operating at half speed and order books give no hint of an upturn. Yet some steel men feel 10 points is a conservative estimate of the coming upswing."

Behind this estimate of the steel market is the feeling among steel men that the situation is approaching the point where the mills cannot take on any more rush business. The mills figure that by the end of May about 20% of new orders will be on a rush basis and will equal about 10% of total capacity. That, they say, is about as far as you can go. When rush orders pushed 10% of capacity in 1954, deliveries began to lengthen. At this same point, customers began building inventory.

Here is another optimistic note: At least one major mill believes that April will prove to be the market turning point when the figures are in for the year. The mill reports that the drop in shipments was checked in April and bookings at the start of May were slightly higher than they had been a month earlier.

The mills are getting more support from construction, according to "The Iron Age." The magazine says the biggest improvement in the market is coming from plates, structurals and other products that go into construction. Bar sales are up slightly, but not enough to indicate a definite trend. Automotive companies are still holding back on orders.

Another important user of steel could be the railroads if they get the help they have been asking for. One major railroad asserts that if help is forthcoming it would plan to spend $100,000,000 almost immediately for capital goods.

Instalment credit in March dropped by $180,000,000, after seasonal adjustment, for the second straight month of decline after a rise since early 1954, the Federal Reserve Board noted. The figure stood at nearly $33,000,000,000 at the end of March, up nearly $1,500,000,000 over March 31 last year.

New instalment credit extended during March, on a seasonal basis, amounted to $3,193,000,000, down from February's $3,235,000,000. In March, as in February, nearly all the decline in new consumer instalment credit was in auto loans. On a seasonal basis, auto loans dropped some $223,000,000 during March. Credit on other consumer goods and personal loans rose but repair and modernization loans declined slightly.

Instalment debt repayments in March came to $3,373,000,000

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Procedures in Underwriting And Selling Corporate Bonds

By A. B. HAGER, JR.*
Vice-President and Syndicate Manager
Halsey, Stuart & Co. Inc., New York City

Step by step procedures followed in underwriting and selling securities offered for competitive bidding—without going into the merits of this method—is made clear by Mr. Hager who starts from the time it is first known an issue is in the offing to the terms of sale after it is won. The experienced syndicate manager explains why, as a general rule, his firm does not recommend bonds should contain non-callable provisions; expounds on the last minute maneuvers of the Final Price Meeting and Price Committee, including not only the final phrasing of the bid but also the retail terms of sale; and reviews what can happen in the event of tie bids. Calls attention to great opportunities in store for those now entering into securities business.

I am going to discuss primarily the procedures followed in underwriting and selling a corporate bond issue purchased at competitive bidding. I do this because it is the type of business with which I am most conversant since it comprises the bulk of our own corporate business. Furthermore, most utility and railroad debt issues today are sold in this manner. This may be due either to some law, rule of policy of a Federal or State Commission or, as is done in very many cases, the issuer may elect this method of sale even though under no legal compulsion to do so.

Before proceeding further, I should like to dispel an erroneous impression which may prevail in some quarters to the effect that Halsey, Stuart & Co. Inc. is interested only in issues sold at competitive bidding. This is not true as we have placed issues privately and participate in the underwriting of publicly offered negotiated issues (primarily of industrial companies) managed by others as well as issues managed by ourselves.

None the less we do support those rules and policies of such public bodies as the Securities and Exchange Commission, the Interstate Commerce Commission, the Federal Power Commission and certain state commissions which, because of the public interest involved, require, with certain exceptions, competitive bidding for debt issues of utility companies and railroads.

However, it is not my purpose to get into a discussion of the merits of competitive bidding. Volumes have already been written and spoken, both pro and con, on this controversial subject. Rather it is my intent to outline how the process operates.

Initial Step

The initial step taken by the prospective underwriters of an issue is the formation of bidding accounts (groups of underwriting firms which severally will participate in making a bid). Unless the size of the issue is small it is probable that anyone who wishes to submit a bid will want to do so in association with other underwriters. This step is taken promptly when it is first known that the financing is in the offing. Information as to the financing plans of a particular company comes from a number of sources. Underwriting firms may gain this knowledge through personal contact with company officials, through news items, reports that competing firms are forming bidding accounts or perhaps through the official invitation requesting bids.

One manner in which we sometimes know of forthcoming issues occurs when issuing companies seek advice as to their financial plans. We frequently have calls or visits from company officers asking for our opinion as to one phase or another of the company's financial program. We are quite willing to give this advice gratuitously and I am sure other firms follow a similar policy.

Non-Callable Provision

As a point of interest, one question frequently asked us of late by prospective issuers is whether or not a forthcoming issue of bonds should have a non-callable or non-refundable provision.

Our advice on this subject is generally at variance with that given by most other firms in the Street. While obviously an issue which is non-callable or non-refundable for a period of five or more years is easier to sell, we do not think it sound for managements to relinquish control of their debt and for this reason we do not as a general rule recommend a period of non-callability or non-refundability.

Other questions might be as such as: the status of the current bond market; whether the Company should sell mortgage bonds, debentures or raise equity money either through the direct sale of stock or through the sale of convertible debentures; the term of debt financing, that is, whether bonds, for instance, should mature in say 20, 25, 30 or 35 years or longer; the effect of long maturities on market receptivity; what constitutes acceptable redemption provisions; the amount of sinking fund to be provided and what other restrictions, if any, should be set forth in the Indenture. These are merely brief examples of the multitude of inquiries which are made by companies contemplating an issue of bonds.

Bidding Accounts

It is generally the larger firms, with adequate personnel and the financial capacity to assume relatively large underwriting commitments, which form and act as managers of corporate bidding accounts. The number of accounts that may be formed to bid for a particular issue will depend primarily on the size and the quality of the issue in question. Likewise, the current condition of the market may influence the number of bidders. For the debenture issues of American Telephone and Telegraph Company which have ranged from $125,000,000 to $250,000,000 principal amount there have been two large competing groups in each instance and three groups have competed for Pacific Gas and Electric Company issues as large as $80,000,000 whereas one utility issue of $4,500,000 attracted 16 bids.

Let us suppose that an underwriting firm hears of a prospective bond issue and decides it wishes to form a bidding account. Naturally, each managing firm wishes to form as strong an account as is feasible. In selecting the firms to be invited into the account, the manager gives consideration to such factors as underwriting capital, ability to distribute bonds of the type in question, market judgment and willingness to assume underwriting risks. If a managing firm had previously managed an account which had bid on a prior issue of the company in question it naturally would endeavor to form a new bidding account including firms which were associated with it on the prior issue. If the current issue is of an amount comparable to the previous one, the problem is then relatively simple. However, if the amount to be sold differs materially from the previous issue it may be necessary to reduce or increase the size of the account. On a few occasions where the size of the new issue of a particular company represents a substantial increase over a preceding issue there may be mergers of certain bidding accounts where the managers may act jointly or a bidding account may be absorbed into one of the others.

The practice of bidding competitively for public utility and railroad debt issues has been established so long that most utilities and railroads at some time or other have sold securities by this method. In instances where a company sells its securities through competitive bidding for the first time, a firm which desires to form and manage a bidding account must compete with others which have the same objective. Thus, it behooves a prospective manager to extend invitations to the firms it wishes to have associated with it as promptly as possible upon receipt of knowledge of the new issue.

Likewise, a firm which wishes to join an account to be managed by another, promptly should seek a place in a bidding account of its choosing.

The procedure from this point on is substantially as follows:

When the bidding papers are made available by the issuing company, the manager of an account obtains a supply thereof. These generally consist of copies of the invitation to bid, statement of terms and conditions of bids, the form of bid and proposed purchase contract, the indenture, preliminary legal opinions and "blue sky" memorandum, preliminary prospectus, etc. These documents are, in turn, distributed to each of the various members of the bidding account.

"Due Diligence" Meeting

After the members of the competing accounts have had an opportunity to study the various documents there is generally a so-called "due diligence" or information meeting. This meeting is conducted by the issuing company and affords members of all the prospective bidding accounts the opportunity of securing additional or clarifying information from the issuer's executives, lawyers, accountants and technical experts.

Meanwhile, there may be steps taken by the issuer or others to stimulate interest in the forthcoming issue. Along this line, there are some companies, especially railroads, which arrange inspection trips over their properties. Those invited on these trips include representatives of the various bidding groups, important prospective purchasers and the services (Moody's, Standard & Poor's and Fitch) which assign ratings to securities. These trips afford the interested parties an opportunity to inspect the issuer's properties, become personally acquainted with its management and to evaluate its operations and prospects.

Likewise, executives of issuers sometimes make personal calls on underwriters and important prospective buyers of their securities in order to develop interest in the new issue. Also, on some occasions there are arranged other meetings where the company officials may address prospective bidders and, sometimes, prospective purchasers.

Prior to price discussions the Managers and the members of the bidding accounts make a canvass of the buyers likely to be interested in purchasing the issue. This affords bidders the opportunity to assess the extent of the interest in the issue and aids them in forming an opinion as to the price at which the issue can be sold. Subsequently the Managers of the bidding accounts arrange the so-called "Price Meetings" which are customarily two in number. The Preliminary Price Meeting is generally held the business day preceding the day of bidding. The Final Price Meeting is customarily held on the bidding date and is the meeting at which the bid to be submitted by the account is finally determined.

Practices may differ among individual underwriting firms but, in general it is believed that most firms which act as managers of bidding accounts follow procedures with respect to Price Meeting similar to those employed by my firm and which I shall now describe.

Preliminary Price Meeting

Prior to the Preliminary Price Meeting of the bidding account there is a meeting of certain key personnel of the Manager (the firm which has organized and is managing the bidding account) including the heads of its Sales, Syndicate, Trading and Buying Departments. At this meeting there is a discussion of the current condition of the bond market, after which the Sales Department reports its findings as to the extent of interest on the part of prospective buyers. Following this, each individual present gives his views as to the market worth of the bonds.

There is then determined the view, if any, which the Manager will express to the account representative its opinion of the price at which the bonds should be offered for sale.

At the Preliminary Price Meeting the Manager will discuss the condition of the bond market and significant features of the issuing company and the particular bonds which it is issuing. This is followed by the Manager's report as to his survey of the interest in the issue with specific mention of certain large institutions which may have indicated an interest. Although not as extensively as the Manager, most individual account members make their own surveys of sales interest and if they have any information differing from or in addition to the Manager's report they have an opportunity to express themselves at this time. The concluding feature of the Preliminary Price Meeting is the expression of price views of the various firms represented.

Final Price Meeting

The Final Price Meeting is generally scheduled by the Manager for as short a time before the hour for receipt of bids as will permit adequate discussion for determining the bid and allow for the completion of the paper work incident thereto. One reason for scheduling this meeting for as late as feasible is that to do so affords members all possible time to secure the latest information on market conditions and sales interest. Another and perhaps more compelling reason is the necessity for preserving the security of the bid. If the meeting breaks up too early some of those present are apt to talk and information as to

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*An address by Mr. Hager before the Cashiers Association of Wall Street, Inc., New York City, May 6, 1958.

Savings Banks Investments Under Today's Economic Conditions

By ALFRED J. CASAZZA*

Executive Vice-President, Savings Banks Trust Company
New York City

In assuming recovery may not occur for another year or more, Mr. Casazza's answer to savings banks' current principal problem of, one, obtaining highest yield with safest quality; and, two, achieving high degree of portfolio-mobility is to invest in good amortizing mortgages and for proper diversification, U. S. and other high grade corporate securities. Considers: (1) elements determining desirable ratio of mortgages; (2) merits of corporate bonds and equities; and (3) possibility that Treasury debt-monetization will limit longer term bonds in favor of shorter and intermediate term that will in large part be absorbed by commercial banks.

Investment opportunities available to mutual savings banks reflect prevailing economic conditions. In prosperity, the demand for funds from business and mortgage borrowers expands sharply. At the same time, restrictive credit measures taken by the Federal Reserve System to prevent a boom curtail the supply of loanable funds. As a result, a shortage of money develops and interest rates rise. Under such conditions, savings banks can satisfy their portfolio needs from an ample supply of mortgage loans and bonds at high yields.

Alfred J. Casazza

Conversely, in a business recession demands for funds from private borrowers decline. Adoption of easy money policies by the Federal Reserve System to stimulate lagging business activity expands the supply of loanable funds. In consequence, interest rates fall and bond prices rise. Mutual savings banks, like other investors, then face the prospect of inadequate outlets for funds and falling yields.

The severe recession of the past six months has caused interest rates to fall abruptly. The bond market has registered one of the sharpest advances ever recorded within so short a period.

How much further this rise in bond prices will go will depend upon the severity and the duration of the recession. Anyone who undertakes to forecast bond prices must first forecast business conditions.

The Current Recession

The current recession is in several respects the most severe that the country has encountered in two decades, or since that of 1937-1938. The two previous post-World War II recessions, one in 1948-1949 and another in 1953-1954, were mainly inventory corrections, although cutbacks in defense spending were a contributory factor in the second instance. Inventory corrections are, by their nature, mild and short-lived.

The readjustment now under way is a good deal more than an inventory correction, however. A potent factor in the current economic downturn is the too rapid expansion of new plant capacity.

An unprecedented rush to expand capacity, involving expenditures of $100 billion on new plant and equipment in the past three years, has left many industries with excessive capacity. Business capital expenditures will decline to around $32 billion this year from $37 billion in 1957, and a further decline is likely in 1959.

Consumers also are cutting back sharply their purchases of durable goods. During the past three years, 20 million new automobiles were produced and sold. This year, automobile sales may not much exceed 4,000,000 cars, the industry fears. The record level of consumer debt also limits the ability of consumers to make new purchases of durables.

This kind of recession has been aptly termed by some economists a "durable goods holiday," since it is characterized by greatly reduced purchases of durable goods. Resulting unemployment and concern about the economic future have also affected adversely sales of nondurable goods such as textiles. Considerable time may elapse before new reservoirs of unsatisfied demands develop that will revive durable goods purchases on a broad scale.

It is undoubtedly true that our economy is far stronger today than it was after 1929. There is no prospect of a recurrence of bank failures, wholesale mortgage foreclosures or an agricultural collapse all of which contributed to aggrevate the great depression of the early 1930's. Government deficit spending and other so-called "built-in stabilizers" like unemployment insurance also lessen the severity of the current recession.

A Year or More

It would not be realistic, however, to assume that the economy is bound to turn upward vigorously within the next few months and soon attain new peaks of output. A "durable goods holiday" type of recession tends to be relatively prolonged. Another year or more could elapse before the forces of economic growth reassert themselves with any vigor.

So long as this recession continues, interest rates will be depressed by reduced private demands for funds and the contracyclical easy money measures of the Federal Reserve System. At times when heavy offerings of corporates and tax-exempt bonds come on the market, prices could decline, but such periods of reaction in the bond market should prove short-lived.

On the other hand, the mounting Treasury deficit will greatly increase the need for funds by the Federal Government. The question arises, therefore, whether heavy Treasury borrowing will check the rise in bond prices and the fall in interest rates.

Deficit Financing

In the coming fiscal year, the Treasury faces a deficit of $8 billion or more because of reduced tax receipts and increases in spending already approved. The deficit will be a good deal larger should Congress vote tax reductions, new large increases in expenditures, or both.

The effect of deficit spending upon interest rates will depend upon the kind of securities the Treasury will sell to raise the needed funds.

Offerings of longer-term Treasury bonds would have a depressing effect upon bonds prices generally. Such issues would be designed to appeal to thrift institutions, and thus would absorb funds that would otherwise be used to bid for other bonds and to make mortgage loans. When the Treasury offered a long-term bond last February in exchange for maturing obligations, the bonds market weakened for a time. It became evident then that the sale of long-term bonds to lengthen public debt maturities, although desirable in itself from the point of view of public debt management, conflicts with the Federal Reserve System's easy money policy designed to combat the recession.

So long as the recession continues, therefore, the Treasury may be expected to limit offerings of longer-term obligations and to favor offerings of shorter and intermediate term that will be absorbed in large part by commercial banks. The commercial banks, in turn, are being provided with additional reserves through reductions in legal reserve requirements or open market operations. This procedure results in partial monetization of the public debt securities that are issued to finance Treasury deficits. Such debt monetization is a logical anti-recession expedient. The expansion of the money supply that results tends to offset the effects of a contraction in bank loans and a reduced velocity of turnover of the money supply.

That commercial banks will be eager buyers of securities under these conditions is shown by the spectacular increase in the security holdings of reporting member banks of the Federal Reserve System of about $4.5 billion since the middle of last November, when the easy money policy was first adopted by the Federal Reserve authorities.

Savings Bank Investment Policy

The prospects are that savings banks will be confronted with a limited supply of suitable investments and declining yields while the recession lasts. Thereafter, as business recovers we can expect bond yields to move upward again in response to both a revival in the demand for funds from private borrowers and a shift away from easy money by the Federal Reserve System.

Once they have provided for sufficient liquidity to take care of possible net withdrawals of deposits, savings banks have two basic investment objectives under present conditions. First, they want to secure the highest yields available on investments of suitable quality, to sustain earnings despite declining interest rates. Secondly, they want to build as much mobility as possible into their portfolios, so that they can take advantage of opportunities to secure higher yields whenever the economy recovers and interest rates turn upward again.

Mortgage loans offer the highest yields available to savings banks today. Because the supply of new mortgages continues fairly large, and because mortgage interest rates have been less sensitive to the general decline in interest rates than bond yields, the differential between mortgage and bond yields has widened in favor of mortgages. FHA insured and VA guaranteed mortgages and carefully selected conventional loans still offer the savings banks net returns after servicing of 4.65 to 4.90%, whereas yields on high quality corporate bonds are below 4%, and on long-term Treasury obligations are dropping to the 3% level.

Moreover, mortgages provide greater portfolio mobility to savings banks than do long-term bonds. Amortization receipts provide a regular flow of funds available for reinvestment whenever interest rates harden and opportunities to invest funds at a higher

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*An address by Mr. Casazza before 18th Annual Western Trustees Meeting, Springfield, Mass., April 22, 1958.

Wage Disputes and Sterling

By PAUL EINZIG

The advisability of a proposed dollar-borrowing by Britain is weighed by Dr. Einzig within the context of: (1) success or lack of success of present labor drive for higher wages; (2) current stronger gold and dollar reserve position; and (3) Government's intention not to relax anti-inflation fight in view of postponement of reduction of Bank rate to 5%. Opines it would be pointless to raise dollars to finance atomic power development and reports growing feeling in London that Government should repay what it owes rather than borrow more dollars.

LONDON, Eng.—The horizon of industrial relations remains as cloudy as ever. The Amalgamated Engineering Union put forward a demand for a 10% increase of wages and for a reduction of the working week. Other important trade unions have decided to follow the example. And since employers both in the nationalized industries and in the private sector seem to be determined this time not to yield, it is difficult to see how a series of major strikes could be avoided. Should we witness a number of strikes, it would be in keeping with past experience. There is always an epidemic of wage conflicts at the beginning and at the end of a boom. At the beginning employers refuse wage demands because they do not yet realize that they could add the wage increases to their prices. At the end of a boom trade unions insist on wage demands because they do not yet realize that it is no longer possible to add the increases to the prices. So it seems history will repeat itself.

Paul Einzig

Paradoxically enough, sterling remained quite firm in spite of the aggravation of the labor situation. Nor did the Stock Exchange respond to the prospects of trouble. The explanation lies in the favorable impression caused at home and abroad by the firmness of employers and of the Government in face of unwarranted wage demands. Until quite recently it was widely assumed that appeasement would prevail, and that the inflationary wage spiral would resume its course. Even now it is by no means absolutely certain that the Government will not give way at the last moment, though at the time of writing this appears unlikely.

The immediate effect of this firm attitude will be a crop of strikes, causing a sharp fall in the output and in exports, and a decline in the gold reserve. But, taking a long view a firm attitude is bound to bear its fruits. It is hoped that it would check inflation, in which case the losses suffered during the next few weeks or months would soon be regained in the sphere of output and exports.

The reserve position is in reality much stronger than is generally realized. According to an official statement, the total of dollar securities held by British residents, which have been declared to the Bank of England and which could be commandeered if necessary for the support of sterling is about $3,000 million. This more than doubles the visible gold and dollar reserve, so that Britain would be well in a position to face a deterioration of the balance of payments as a result of strikes. It also enables the Treasury to meet pressure that is liable to arise through the deterioration of the balance of payments of raw material producing countries of the sterling area. This being so, it is difficult to see why the Government should be so anxious to secure large dollar facilities to reinforce the reserve.

Dollar Atomic Power Financing

The latest reports suggest that the raising of dollar capital for the financing of atomic power development is under consideration. The idea is not altogether new. Years ago it arose in conjunction with the financing of British hydro-electric power development. That project was not proceeded with, however, and it is by no means certain that it has now been adopted by the Government in a modified form. It would be utterly pointless to raise capital for that purpose from the World Bank or from other dollar sources. The equipment would be produced in Britain, so that the project can well be financed with the aid of sterling, and there should be any amount of sterling available for that purpose. The transaction would simply amount to an excuse for raising dollars for the reinforcement of the gold reserve.

Those in favor of a big dollar loan argue that Britain would pass on to the Commonwealth raw material producing countries the bulk of the proceeds of the transaction. The idea is not very attractive, however. The larger countries of the Commonwealth have direct access to the dollar resources of the World Bank. There would be no object in straining Britain's credit to the utmost to re-lend the dollars borrowed.

Should the outcome of the present labor troubles be satisfactory, Britain would need no support for sterling. The abandonment of excessive wage demands, or the defeat of the strikes, would be followed by an improvement of the British balance of payments and a strengthening of confidence in sterling. Britain would soon be in a position to be able to export capital without endangering the stability of sterling. On the other hand, a success of the wage demands would change the situation so much for the worse that even the largest dollar loan imaginable would be unable to protect sterling. In any case, should inflation be resumed there would be no justification for lending to Britain.

There is a growing feeling in London that the Government, instead of thinking in terms of borrowing more dollars, should take the earliest opportunity for repaying what it owes. Once the danger of major strikes has passed there will be no justification for holding on to the dollar facilities arranged under totally different conditions.

Postponement of the reduction of the Bank rate to 5% is taken as an indication of the Government's intention to fight it out on this occasion. Further Bank rate reductions at the present juncture would be interpreted as a sign of weakening. The Prime Minister and other senior members of the Government repeatedly declared their firm determination not to relax resistance to inflation prematurely. If they mean what they say—and there is now good reason for hoping that they do—the outlook is bound to undergo considerable improvement in the not too distant future.

The Role of American Business And the Sources of Our Strength

By J. O. WRIGHT*

Vice-President, Ford Motor Company and General Manager, Ford Division

Ford Motor executive states our main problem is for business to stimulate a resurgence of confidence on the part of the consumer in the American economy, and optimistically forecasts production of upwards of 10 million cars and trucks in peak years between now and 1965. Diagnosing what we are experiencing as not a true recession but a leveling off of growth rate and in being mindful that government action "unquestionably has the power to stop a decline in its tracks," Mr. Wright advises cautious approach to tax cuts; admonishes business to stop overreacting to economic fluctuations; and suggests actions business can take to improve our economic health.

It seems to be the general feeling that there has been a certain faltering of confidence in the American future in recent months. There have been too many cries of despair, too many prophecies of economic tribulation, and too much shaking of heads.


J. O. Wright

Fortunately, the extreme pessimists are by no means representative. To me, in fact, a most encouraging note is the persistence of reasonable optimism on the part of most businessmen of my acquaintance, based upon a factual assessment of our present strengths and weaknesses. Nevertheless, the seeds of doubt have been sown among us. They are tending to make us cautious and indecisive at a time when we should be rallying with all the purpose and vigor at our command to the challenge that faces us.

In my opinion the first step toward an effective solution is a realistic appraisal of the assets we have at hand in this country —the sources of our strength, if you will.

The next step is obviously to plan our campaign and to commit our full resources to the struggle.

Underlying Causes

Let's look for a moment at the underlying causes of the present business letdown. What are they? I think there is broad general agreement among businessmen, economists and government officials.

The fact is that there has been a normal and predictable reaction to the unprecedented boom we have been enjoying off and on for the past decade. It is hardly possible to have perpetual economic growth in a perfectly straight line. In everything that lives and moves there must be ebb and flow —times of intense activity and times of relaxation.

During the past 10 to 12 years, American industry has experienced a vast expansion and modernization of plant and machinery. It has made an incredible peacetime investment of $300 billion—an investment roughly equal to our total military expenditures during World War II. Much of that investment was made in anticipation of the population spurt that will swell our ranks in the 1960's. It would be unrealistic to assume that capital investment could continue without interruption at the extraordinary level it reached in 1957. We are, in brief, experiencing a moderate decline in business spending in 1958.

As for military spending, it has fluctuated considerably during the past decade. In 1957, particularly during the last six months, there was an actual decline of some magnitude in military spending.

Business inventories have periodically piled up and have had to be worked off. Nobody has yet figured out a way to achieve a perfect balance of supply and demand in a free economy. Nevertheless, such fluctuations have been, in general, remarkably mild.

When such adjustments take place, there is, of course, a shrinkage of production and employment and we have seen unemployment increase rather sharply in recent months.

Along with rising unemployment, there is a tendency on the part of the consuming public at times such as this to slow down its buying and to speed up the liquidation of installment debt. Both tendencies have been evident in the past month or two.

Unfortunately for us in the auto industry, such swings tend to be exaggerated because the automobile is a major family expenditure and often a deferrable one.

One other contributor to our present situation—unfortunately I can not discuss it fully here—is the wage-cost-price spiral. This is a deep-seated and long-range problem that will increasingly occupy our attention in the years ahead.

It has contributed materially to our present difficulties. It has added to an inflationary push which invited Federal action to slow the boom through tight restrictions on the availability of money and credit — restrictions which have since had to be eased.

What we have had in the present business slump is a simultaneous development of several downward trends. The effect has been temporarily to dampen our enthusiasm and confidence.

I am sure there is nothing startling or new in this analysis of the bearish factors in the economy. But I believe it is a fair look at the situation we face.

Incidentally, I have noticed that in some quarters the press is being accused of playing down news of the recession. This I find amusing because I recall only too well that during the latter fall and early winter months most of the news seemed to be bad — seemed calculated to cause uncertainty and even fear in the minds of the people. You recall the headlines concerning Sputnik, the President's health, the failure of the first Vanguard, Muttnik, and the rising figures on unemployment.

It had not occurred to me that news of the recession has been suppressed. If there has been suppression it seems to have come too late. The pessimistic predictions had been made and the curtailment of buying had begun.

It seems to me this is the time to apply the theory of relativity. Some things that may look pretty bad in absolute terms, may not look so bad in relative terms.

Output and Investments Still High

For example, despite the decline in business investment, such investment in 1958 will be higher than in any other year in history, with the exception of 1956 and 1957. And that includes the boom year of 1955. As a matter of fact, the prospect is that business spending will have to continue at substantial levels in order for consumer goods industries to maintain their respective competitive positions.

Take unemployment. While some segments of the economy have suffered, in others employment remains high. Employment for the economy as a whole is at close to an all-time high, indicating that what we are experiencing is not true recession but a

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*An address by Mr. Wright before the Kentucky Chamber of Commerce, Louisville, Ky.

Dealer-Broker Investment Recommendations & Literature

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

Atomic Letter (No. 36) with comments on British uranium purchases from Canada, growing atomic navy, atomic equipment market, Preston East Dome Mines and Algom Uranium Mines—Atomic Development Mutual Fund, Inc., 1033 30th Street, N. W., Washington 7, D. C.

Banks and Trust Companies of the United States—Comparative figures as of March 31, 1958—New York Hanseatic Corporation, 120 Broadway, New York 5, N. Y.

Burnham View — Monthly investment letter — Burnham and Company, 15 Broad Street, New York 5, N. Y. Also available is current **Foreign Letter.**

Commercial Banks Stocks—9th edition—Study of 34 commercial banks—First Boston Corporation, 15 Broad Street, New York 5, N. Y.

Convertible Securities—Selected bonds and preferred stocks in "Current Comments for Investors"—Francis I. du Pont & Co., 1 Wall Street, New York 5, N. Y. Also in the same issue are brief analyses of **Boeing Airplane Co.** and **National Distillers & Chemical Corp.**

Federal and State Stock Original Issue and Transfer Tax Rates — Booklet — Registrar and Transfer Company, 50 Church Street, New York 7, N. Y.

Foreign Exchange — Rates as of April 22, 1958 — Deak & Co., Inc., 75 West Street, New York 6, N. Y.

Japanese Prospects for 1958—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 discussions of **Series Type Investment Trusts in Japan** and the **Iron and Steel Industry.**

Japanese Stocks — Current information — Yamaichi Securities Company of New York, Inc., 111 Broadway, New York 7, New York.

Latest Field Report—Harris, Upham & Co., 120 Broadway, New York 5, N. Y.

Life Insurance Stocks — 1957 operating results of 23 major stocks—Kidder, Peabody & Co., 17 Wall Street, New York 5, N. Y.

Market Outlook and Selected Securities—Suggested portfolios —E. F. Hutton & Company, 61 Broadway, New York 6, N. Y.

Mutual Fund Shareholder — Comprehensive study — National Association of Investment Companies, 61 Broadway, New York 6, N. Y.

Natural Gas Distributors—Survey with particular reference to **Alabama Gas Corporation, Brooklyn Union Gas Company, Laclede Gas Company, National Fuel Gas, Oklahoma Natural Gas Company** and **Pacific Lighting Corporation** — Thomson & McKinnon, 11 Wall Street, New York 5, N. Y. Also available is a report on **Celanese Corp. of America.**

New York City Banks—First quarter earnings comparison of 13 New York City Banks — Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Oils—Analysis of current situation—J. R. Williston & Beane, 115 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 19-year period — National Quotation Bureau, Inc., 46 Front Street, New York 4, N. Y.

Public Utility Common Stocks — Comparative figures — G. A. Saxton & Co., Inc., 52 Wall Street, New York 5, N. Y.

Real Estate Bond Averages — Circular — Amott, Baker & Co., Incorporated, 150 Broadway, New York 38, N. Y.

Tax Exempt Bonds—List of tax-exempt municipal bonds with yields from 2% to 6%—Hannaford & Talbot, 519 California Street, San Francisco 4, Calif.

Tax Free Yields—Bulletin—Scharff & Jones, Inc., 219 Carondelet Street, New Orleans 12, La.

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ACF-Wrigley Stores, Inc.—Survey—Abraham & Co., 120 Broadway, New York 5, N. Y. Also in the same circular are surveys of **American Cyanamid** and **Deere & Co.**

American Water Works—Analysis—Harris, Upham & Co., 120 Broadway, New York 5, N. Y. Also available is a report on **Westinghouse Electric and Manufacturing.**

Appel Petroleum Corp.—Report—Englander & Co., Inc., 115 Broadway, New York 6, N. Y.

Armstrong Cork—Analysis—du Pont, Homsey & Co., 31 Milk Street, Boston 9, Mass. Also in the same circular is an analysis of **Steel Stocks.**

Baltimore Gas & Electric Co. — Data — Oppenheimer, Vanden Broeck & Co., 120 Broadway, New York 5, N. Y. In the same circular are data on **Standard Oil Company of Indiana, Sterling Drug Inc.** and **Traders Finance Co. Ltd.**

A. J. Bayless Markets, Inc.—Analysis—First Securities Corporation, 111 Corcoran Street, Durham, N. C.

Big Horn Powder River Corporation — Analysis — Frank C. Moore & Co., 42 Broadway, New York 4, N. Y.

Continental Air Lines, Inc.—Review—John H. Lewis & Co., 63 Wall Street, New York 5, N. Y.

Cutler Hammer—Bulletin—Bache & Co., 36 Wall Street, New York 5, N. Y.

Employees Group Associates—Study—Robert H. Huff & Co., 210 West Seventh Street, Los Angeles 14, Calif. Also available are studies of **Continental Casualty Company** and **Government Employees Life Insurance Company.**

Fischer & Porter Company—Analysis—Troster, Singer & Co., 74 Trinity Place, New York 6, N. Y. Also available are analysis of **Metals & Controls Corporation** and **Collins Radio Company.**

Gum Products Inc.—Study—Price, McNeal & Co., 165 Broadway, New York 6, N. Y.

International Minerals & Chemical—Memorandum—Walston & Co., Inc., 74 Wall Street, New York 5, N. Y.

International Telephone & Telegraph Corporation—Analysis—Joseph Faroll & Co., 29 Broadway, New York 6, N. Y.

S. H. Kress & Co.—Analysis—Halle & Stieglitz, 52 Wall Street, New York 5, N. Y.

Kusan, Inc.—Card memorandum—Leason & Co., Inc., 39 South La Salle Street, Chicago 3, Ill.

Loblaw Companies Limited—Analysis—McLeod, Young, Weir & Company, Ltd., 50 King St., West, Toronto, Ont., Canada.

Lockheed Aircraft — Report — Reynolds & Co., 120 Broadway, New York 5, N. Y. Also available is a bulletin on "Another Look at the Oils" and a report on **General Motors Corp.**

Marquardt Aircraft Co.—Memorandum—Goodbody & Co., 115 Broadway, New York 6, N. Y.

National Steel & Shipbuilding Corp.—Memorandum—Midland Securities Co., Inc., Davis Building, Dallas 1, Tex.

Penn Fruit Co.—Memorandum—Shearson, Hammill & Co., 14 Wall Street, New York 5, N. Y. Also available is a memorandum on **Safeway Stores.**

Roadway Express Inc. — Memorandum — Fulton Reid & Co., Union Commerce Building, Cleveland 14, Ohio.

Rockwell Manufacturing Co.—Analysis—Scherck, Richter Company, 320 North Fourth Street, St. Louis 2, Mo.

Seaboard Air Line Railroad—Memorandum—H. Hentz & Co., 72 Wall Street, New York 5, N. Y.

Sterling Drug—Data—Herbert E. Stern & Co., 52 Wall Street, New York 5, N. Y. Also in the same bulletin are data on **Diamond Gardner.**

Simpsons Limited — Review — James Richardson & Sons, 173 Portage Avenue, East, Winnipeg and Royal Bank Building, Toronto, Canada.

Talon, Inc. — Analysis — Parrish & Co., 40 Wall Street, New York 5, N. Y.

Tishman Realty & Construction Co., Inc.—Analysis—Burnham and Company, 15 Broad Street, New York 5, N. Y.

United States Trust Company of New York—Analysis—New York Hanseatic Corporation, 120 Broadway, New York 5, N. Y.

West Coast Life Insurance Company — Analysis — Walter C. Gorey Co., Russ Building, San Francisco 4, Calif.

Wisconsin Bankshares Corporation—Report—Milwaukee Company, 207 East Michigan Street, Milwaukee 2, Wis.

Kramer Mut. Fund Mgr. For Hirsch & Co.

Maurice P. Kramer has become associated with Hirsch Co., 25 Broad Street, New York City, members of the New York Stock Exchange, as manager of the firm's enlarged Mutual Funds Department.

4 With Shearson, Hammill

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—Walter N. Anderson, Robert R. Jarrett, John E. Lee and Earl F. Money have joined the staff of Shearson, Hammill & Co., 520 South Grand Avenue. Mr. Anderson and Mr. Jarrett were previously with J. A. Hogle & Co.

COMING EVENTS

In Investment Field

May 12-13, 1958 (Cleveland, Ohio)
Association of Stock Exchange Firms Board of Governors meeting at Statler Hotel.

May 16, 1958 (Baltimore, Md.)
Baltimore Security Traders Association annual spring outing at Country Club of Maryland.

May 20-21, 1958 (Omaha, Neb.)
Nebraska Investment Bankers Association cocktail party (May 20 at Omaha Club) and field day (May 21 at Happy Hollow Club).

May 22-23, 1958 (Nashville Tenn.)
Security Dealers of Nashville dinner at Hillwood Club, May 22, outing at Belle Meade Country Club May 23.

May 23, 1958 (New York City)
STANY Glee Club annual cocktail party, dinner and dance at the Belmont Plaza.

May 23, 1958 (Philadelphia, Pa.)
Investment Association of Philadelphia annual outing at the Philadelphia Cricket Club, Flourtown, Pa.

June 2, 1958 (Syracuse, N. Y.)
Bond Club of Syracuse annual outing at Hinerwadel's Grove, North Syracuse.

June 6, 1958 (Los Angeles, Calif.)
Bond Club of Los Angeles annual Field Day at the Oakmont Country Club.

June 7, 1958 (Toledo, Ohio)
Toledo Bond Club annual outing at the Invernes Country Club.

June 18-21, 1958 (Canada)
Investment Dealers' Association of Canada annual convention at Manoir Richelieu, Murray Bay, Quebec.

June 13-14-15, 1958 (Los Angeles, Calif.)
Security Traders Association of Los Angeles annual Spring Party at the Coronado Hotel, Coronado, Calif.

June 13, 1958 (New York City)
Municipal Bond Club of New York 25th annual field day at Westchester Country Club, Rye, N. Y.

June 19, 1958 (Minneapolis-St. Paul)
Twin City Bond Club annual picnic and outing at the White Bear Yacht Club, White Bear Lake, Minn.

June 20, 1958 (Philadelphia, Pa.)
Investment Traders Association of Philadelphia summer outing at Overbrook Country Club, Radnor Township, Pa.

June 27, 1958 (Detroit, Mich.)
Bond Club of Detroit annual summer outing at Lakepointe Country Club.

June 27, 1958 (New York City)
Investment Association of New York outing at Sleepy Hollow Country Club, Scarborough on the Hudson, Scarborough, N. Y.

June 27, 1958 (Philadelphia, Pa.)
Philadelphia Securities Association annual outing at the Overbrook Golf Club, Bryn Mawr, Pa.

Sept. 18-19, 1958 (Cincinnati, Ohio)
Municipal Bond Dealers Group annual outing — cocktail and dinner party Thursday at Queen City Club; field day Friday at Maketewah Country Club.

Sept. 29-Oct. 3, 1958 (Colorado Springs, Colo.)
National Security Traders Association Annual Convention at the Broadmoor.

Oct. 6-7, 1958 (Boston, Mass.)
Association of Stock Exchange Firms Board of Governors meeting at Somerset Hotel.

Oils and Chemicals: Close Relatives Growing Closer?

By W. M. V. ASH*
President, Shell Oil Company of Canada, Ltd.

The end of the "good old days" for the petrochemical industry and new developments both here and in Canada prompt Mr. Ash to describe the growing closeness and yet competitive separateness between the oil and petrochemical industries for oil's raw material by-products which the petrochemist previously was able to obtain as an almost scavenger product. The petrochemical industry, as a result, is described as being squeezed by increased costs, resulting from complete utilization of oil, which necessitates special plants and processes to make raw materials for petrochemical operations. Expects increasing product complexity and optimum chemical engineering to overcome raw material competition, and the "race will go to the soundest."

First, however, to define some of our terms of reference, especially that terminological laxity, the word petrochemical. In referring to any given product as a petrochemical, it must be remembered the term defines some of the raw material as well as the product. Many chemical products can and are made from different raw materials so that the same thing can be a petrochemical when made by one company and not when made by another. Good examples of this are glycerine and ethyl alcohol which are petrochemicals when made by Shell for instance, yet sold in competition with their namesakes made from natural products by soapers and the fermentation industry. In Canada, acetone is now exclusively a petrochemical, but until five years ago, it was derived from calcium carbide made from limestone, coke and electric power.

W. M. V. Ash

Perhaps you will accept the definition of a petrochemical as "a chemical compound or element recovered from petroleum or natural gas or derived in whole or in part from petroleum or natural gas hydrocarbons, and intended for chemical markets."

The reservation "intended for chemical markets" is necessary to prevent a "petroleum product" like gasoline alkylate being caught up in the net of the definition. The very necessity for such a reservation is a temptation to think of the chemical and oil industries in terms of close relations. However, they are those of the boy kissing his girl on her parents' doorstep—an experiment in chemistry which may or may not lead to the use of a shotgun.

Dry Gas and the Cheap Residuals

One upon a time, as oil was produced and, perforce, gas came with it, there was no practical outlet for the dry gas. It could be had cheap, because it was surplus to demand. Also, as oil was distilled and cracked, and some of the results were mixed up into what was, for that day, a satisfactory motor fuel, various other products of cracking were of lesser utility for gasoline, and so they too could be had cheap.

These materials gave the petroleum-based chemical business a good start. They could be converted into simple chemicals, and sold successfully for a variety of further uses. Their virtues lay in the cheapness and abundance of the raw materials and their similarity to chemicals already available from other sources (coal, agriculture, etc.), whose uses were known already. So they could be sold successfully with relative ease.

Talking of use—at the risk of some statistical dehydration — I might at this point introduce some figures breaking down Canadian chemical consumption by end use. Direct consumer use accounted for 26.3%, chemicals and allied products for 15.6%, foods, food packaging for 9.3%, textile products for 8.4%, construction and maintenance for 8%, agriculture for 6.8%, rubber and leather products for 5.5%, pulp and paper for 4.3%, mining, smelting and refining for 3%, steel products for 3%, plastics fabrication for 1.8%, petroleum products for 1.2%, and all other uses accounted for 6.8%.

As usual the etceteras account for an important segment. Do you know the story of Simon Bolivar, the liberator of Venezuela? It is said that as he was approaching a country town after a long day's riding, his aides sent a message ahead making the night's arrangements. The message specified food and drink, lodging, etc., etc. When Simon Bolivar arrived at the town he found the arrangements entirely satisfactory and sitting in the living room of his lodging were two beautiful senoritas. One of his aides whispered to the host to ask who they were and received the reply "those are the etceteras!"

Chemicals Enter Motor Fuel

Turning back to the founts and origins of oil and chemicals, as time passed, gasoline engines became more sophisticated. Today's motor fuel manufacture requires extensive chemical re-combinations similar to petrochemical operations. Fuels are also improved by chemical additives of various kinds, and carefully balanced to get the most out of these complicated engines. No simple set of specifications today can adequately describe a good motor fuel, and nothing but actual rigorous testing for long periods on the road can prove up the best ones. Motor fuel, in other words, has become in effect a performance chemical of considerable complexity. So far it looks like close relatives growing closer all right. But note this—motor fuel has also become a competing outlet for chemical raw materials.

At the same time, dry gas has been in increasing demand for industrial and home use, with the result that distress sales of this once-surplus material are a thing of the past in most of North America.

Two-Fold Problems

The petrochemist, accordingly, sees many of the materials that gave him his start costing him steadily more.

In the early days of the petrochemical industry, by-products such as gases from normal refinery operations were utilized. Increased demand for the products led to the complete utilization of these raw materials. This happened in the major refining centers of California and the Texas Gulf and essentially the same thing has come about in Canada—at Montreal and Sarnia.

Special plant and processes had then to be introduced to make the raw material for the petrochemical operations. For example natural ethylene in refinery gas was supplemented by cracking ethane—and depending on the economics holding at the particular location—propane or even naphtha. In addition, this tailor-making of "raw" materials led to segments of the petrochemical industry being based on raw materials which did not normally occur in refinery by-products. Acetylene, for instance, was once wholly derived from carbide and the basis for a large and rapidly growing field of chemical derivatives. Now it goes into the petrochemical corral in the many instances where it is made from methane in natural or refinery gas.

Large Capital Investment

The large capital investment required for plant specifically to produce these erstwhile raw materials makes it proper to give ethylene, propylene, butylene, etc., the status of "chemical intermediates" or even "chemicals" rather than raw materials. In techni-journalese the favored expression is "chemical building blocks." And if you want to carry this simile further, you might say that if the oil and chemicals industries are close relatives, they also look at times like two enfants terribles grabbing each other's building blocks.

With the expansion of the petrochemical industry, the same techniques applied to petroleum refining have enabled many of these chemical intermediates to be utilized in the synthesis of valuable gasoline components, by polymerization, alkylation, etc., so their alternate values are now not plant fuel but gasoline. This has exerted additional pressure towards the construction of plants specifically for the production of these intermediates.

The trend towards competition between the petroleum and petrochemical industries for intermediates, is intensifying as petroleum refining seeks methods for keeping up with the advancing octane demand. At present, processes for converting petroleum hydrocarbons into high octane aromatics are very much to the fore while at the same time petrochemical interest is directed to such things as cyclohexane (an aromatic precursor) and the aromatic paraxylene for synthetic fibre manufacture.

All this has spelled the end of the good old days for the petrochemist. No more is his raw material almost a scavenger product. Now he has competition for his raw feed. How has he reacted?

Two-Fold Reaction

His reaction has been two-fold. First, he has worked hard to optimize his processes to the nth degree to live within the narrowing gap between what he has to pay for raw materials, plus his rapidly increasing construction and operating costs, and what the customer will pay him for the product — which latter bears no necessary relation to his costs. This has led to some mighty elaborate chemical engineering.

Continued on page 24

*An address by Mr. Ash before Canada-U. S. A. Chemical Engineering Conference, Montreal, Canada, April 23, 1958.

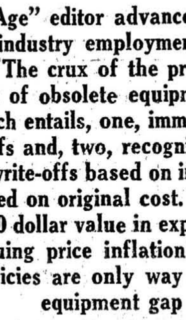
Facing Point of No Return on Plant and Capital Equipment

By GEORGE F. SULLIVAN*

Editor, "The Iron Age"

"The Iron Age" editor advances two-point program to stimulate heavy industry employment to bring the nation back to prosperity. The crux of the problem, Mr. Sullivan reveals, is replacement of obsolete equipment with new cost-saving machinery which entails, one, immediate temporary action on fast tax write-offs and, two, recognition of inflation's existence by permitting write-offs based on inflated cost—instead of present method based on original cost. Sees no way to restore former 1947 or 1950 dollar value in expressing belief, but not approval, that continuing price inflation is inevitable and that recommended policies are only way to meet foreseeable plant and equipment gap in next decade.

Digging into the files, I came up with a copy of a talk I made two years ago and I would like to quote one paragraph of it:



George F. Sullivan

"For 1956, we look for a new record in steel which may be two million tons above the boom year of 1955, if there is no strike. And that's a 50-50 bet now. There may be a small drop in activity during the third quarter but the fourth quarter is quite likely to come back with a bang, to a level of activity equal to or greater than the 1955 average. Again, barring a serious steel strike, this could mean that 1956 will be a new record year . . . More inflation is inevitable."

Recall that steel production did not set a record. In that year it turned out to be about 115 million tons versus 117.6 million in 1955. The reason was the steel strike. One of the other sentences in that paragraph is one I want to repeat today. That's the one which read, "More inflation is inevitable."

That last statement was the easiest prediction anyone ever made. Inflation continued almost unchecked and amounted for the year 1956, to about 3% of the Gross National Product, or roughly $14 billion.

So my prediction turned out to be fairly lucky.

I am still as optimistic as ever about the long-term outlook for business, but I respectfully decline to advance a detailed prediction for 1958.

Never before in history have so many facts and figures been available to so many people. Never before have we had so many do-it-yourself economists whose numbers are now legion. And never before have so many people made so many predictions. I see no sense in adding to that collection at this time.

As a matter of fact those following the "Saturday Evening Post" during the past year will recall that there has been a great rash of true confession stories ranging from June Allyson, Diana Barrymore, Vic Damone, and George Raft on through Charlie Chaplin and the family that went broke by buying on the installment plan. Each is a great public handwringing spectacle as these great or once great people get down on their knees and tell the world to what a low ebb they have sunk. It is really heart-rending.

I predict that soon we will see in this same series one entitled "I was an Economist for the FRB."

Let's get off the subject of economics for a moment and talk about another subject which concerns us in our daily business lives. I am speaking of waste.

Our Wasted Resources

As a nation, we have been most wasteful and prodigal with our resources. We have been wasteful of many of our natural resources and some of our human resources. The Europeans, and particularly the British, are quite caustic in their comments on American wastefulness.

There are some areas of waste which we can attack, and are attacking. There are some which are probably best left alone. And there are some we can't do much about anyhow.

For the past few months I have been clipping little items out of magazines and newspapers on the subject of waste. I now have a total annual waste collection here which runs to $23,150 million a year. An this is just a partial list:

First is the waste and the loss caused by corrosion. It is estimated that this costs us $6 billion a year in direct costs, and perhaps more in indirect costs.

Next is the loss caused by weeds. This is estimated to run to $5 billion a year. From the condition of my own front lawn I would say that this is a very conservative estimate.

The National Noise Abatement Council estimates that noise is costing industry $4 billion a year.

Plant disease, according to reliable government sources, costs $3 billion a year. And there is a little item of termites, which figures out at $100 million a year. Not to mention fire—at $1 billion a year.

I have further computed — and this figure isn't very reliable —that the coffee break is costing employers $4 billion a year in lost time. But if we cut it out, the economy of Brazil will certainly collapse and it would cost us a fortune in foreign aid to hold it up. So this is an area perhaps best left alone.

Now, with the possible exception of the last item, these are areas of waste which industry is attacking and with good reason.

Another and a very significant area in which we are wasting our resources is inflation.

Since 1933 the penalty for saving has been 3% a year compounded annually.

You need only go back to 1947 to find a staggering toll from inflation. The gross national product in 1957 was $434.4 billion. But in terms of 1947 dollars that gross national product was only $335.2 billion—which is a loss due to inflation of nearly $100 billion.

Can inflation really be checked? Well, it was checked in 1929 at the cost of a very serious depression. In other words the cure was most effective but it nearly killed the patient.

For the foreseeable future, it appears that a certain amount of inflation is inevitable.

Before we get into this any further, please let me define my terms. I am not speaking about the sort of runaway inflation that Europe had after World War I. I personally was in France in 1929 when things were so bad that as you waited in line to convert your travelers' checks into Franch francs you might actually get one franc more by the time you got up to the window. It might start at 49 and by the time you got to the window you were getting 50 francs to the dollar.

Also, I am not saying that I am in favor of inflation. Not even a little bit of it.

No Way to Restore Dollar's Value

What I mean to say is that I see no way to restore the value of the dollar to the 1947 level or even to the 1950 level short of a catastrophic depression. And I have four reasons which I would like to suggest to show you why I believe this to be true:

For one thing, times have changed. Let's contrast the family man of today with his grandfather.

John Doe was born in the late nineties. His life was built around some basic concepts that in his day were accepted as desirable. He won the respect, envy and admiration of his neighbors by paying his bills promptly, by liquidating the mortgage on his home, by having something put away for the future.

Richard Roe is his grandson. He has won the respect, envy and admiration of his neighbors by parking a new car, on which he has made the first payment, in front of a mortgaged house filled with mortgaged furniture, and so long as he meets the minimum payments on his television, refrigerator, home freezer, automatic washer, electric range, the ring on his wife's finger, and the trip he took to Hawaii last year, he is everything expected of a good citizen.

Whether this is good or bad, right or wrong is beside the point. The contrast shows how our social and economic standards have changed.

Point 2—Under the Employment Act of 1946 it is now the law of the land that it shall be the continuing policy of the Federal Government to coordinate and use all its functions and resources to promote maximum employment, production and purchasing power, within the framework of free competitive enterprise. Since this is a law, deficit spending, which is inflationary, is usually needed to comply with it.

In other words whether you cut taxes, extend unemployment benefits or push public works programs, you are going to run up a deficit—and deficits spell inflation.

Point 3 — In spite of all the things we know about our economy and the supposed skill we have acquired in managing it, we have not been able to prevent an increase in the cost of living since it turned upward in 1933.

As proof of this statement I recall for you that we have twice tried to stem inflation. The first effort was made in 1953. There is an inside story on that which might interest you. Shortly after the new administration took over, and well aware of the dangers of the continuing decline in the purchasing power of the dollar, it was decided that the way to slow the inflation down was to try to depress the Federal Reserve index of industrial activity. A very high official of the administration, speaking off the record, told a group of newsmen—and I was among those present—that it was proposed to carefully probe each segment of the economy with the idea of trying to slow the thing down in a reasonable and gradual fashion. I repeated this off-the-record statement to a friend of mine, an investment banker. He laughed. "Did so-and-so actually tell you that? Why, I had lunch with him last week and he said to me, Bob, there's only one way to stop this thing; we're going to hit it with a meat axe." They did. The result was the now famous 1953-54 recession.

There are some who think that the Federal Reserve Board's activity is trying to stop inflation in 1957 may have contributed to our current situation.

The final point in my effort to show that I believe inflation is inevitable in the foreseeable future is this: We have, I think belatedly, finally concluded that of the two major menaces we face—Russia and inflation—the former is the more serious threat.

Oh, we have tried to beat the Russians by verbal inflation, which has consisted of shooting off our mouths before we shot off our satellite. This barrage was shortly followed by a flood of rosy promises by the Army, the Navy and the Air Force on what each one of the respective services could and would do in the future about getting to the moon and maybe taking over a few planets in the bargain.

So let's face it, and in all seriousness, defense spending is wasteful. It causes inflation. But we have got to have it and so we are going to have inflation. The two are inseparable bedfellows.

So I repeat, I believe that inflation is inevitable. What can we do about it? Two things occur to me:

Suggests Program

(1) We should continue to support all sensible efforts to hold inflation within reason; (2) We can take a leaf out of the politicians' book: "If you can't lick 'em, join 'em."

By the latter remark I mean that it seems only reasonable to accept the inevitable and to plan our business and personal finances accordingly.

As individuals, we can invest in real estate and in common stocks. And undoubtedly a great many people are doing this as best they can as a hedge. There are other hedges, of course, in the commodity field and so forth.

As corporate officials and managers we have another way of riding with the punch. Those who represent companies who have a good part of their assets in the ground have some protection. But only if industry is healthy will it be able to buy those materials in the quantities needed for efficient operation and at prices that will return a reasonable profit. Therefore, metal industry has a very definite stake in the over-all health of almost all segments of metalworking.

Unless the metalworking industry — and in fact all American industry — gets some reasonable changes in the tax laws that relate to depreciation, industry simply will not have the money to buy enough of your products or those of anybody else.

We have in this country a dynamic economy—an economy that must be refueled in flight. We have to keep moving forward or we shall assuredly slip backward.

We should hit a gross national product of more than $600 billion in 1965. I am expressing this in terms of current dollars. Actually, with inflation, it should be somewhat higher than that.

To hit this gross national product figure which is about 50% above the 1957 level, industry will have to spend on plant and equipment something like $370 billion in the period 1956-1965—and if it does this it will be short by about $70 billion. This means that after applying all its depreciation reserves and taking out of profits all that can reasonably be taken out, it will still be short $70 billion to achieve this goal. This goal is merely a continuation of our growth over the past 40 years.

To bring it down to an individual case: the man who needs a $30,000 machine tool to replace one that he bought in 1938 for $10,000 has $10,000 in his depreciation account. Sure, the new machine will be about 50% faster than the old one, so he is justified in going into the till for $5,000 extra. This still leaves him $15,000 short because he hasn't been able, because of the tax laws, to depreciate the machine at the rate he must in view of the price inflation that has taken place since 1938.

Facing Point of No Return

Just as we have passed the point of no return in our battle against inflation, so we are all approaching a point of no return on capital equipment. This is a rather broad statement which means that industry is finding it more and more difficult to replace equipment—to the extent that if this equipment replacement is delayed, the entire economy suffers.

Now I'm a long way from being an accountant. So I'll not bore you with a statistical discussion. I don't know the difference between depreciation on a double declining balance method versus the sum of the digits.

But I do know this: No matter what method is used, there is at present no provision for inflation. There is an ostrich-like approach to the fact that machinery and equipment keeps costing more and more every year. There is — at least implied — the thought that if we close our eyes to inflation it will go away. But we've just shown that this is not likely to happen.

There are all sorts of schemes afoot today to spend our way out of this recession. In metals, things are rough.

That calls for strong action. In spite of the millions that were spent on PWA and boondoggles during the 'thirties, the economy didn't develop prosperity until the capital goods industries began to come alive as a result of the war in Europe. There is no such thing as a free lunch.

I do not argue that we must have a big expansion boom to get ourselves on the upswing. About half of the equipment orders placed during the past few years have been for replacement — for new machinery to compensate for the rising cost of labor—to stay competitive.

Two-Point Solution

And so I propose two things right now. One: immediate temporary action on accelerated depreciation. This would be a shot-in-the arm program to last until step two could be implemented.

Step two calls for a law to quickly recognize the presence of inflation by permitting write-off based on replacement cost instead of the present antiquated method of basing it on original cost.

We'll come out of this thing as we've done before. At the moment, the only question is when. But regardless of when it is, we might as well agree that long-term inflation will be with us. We'll be much better off if we recognize that fact and make our plans accordingly.

I realize that the metalworking industry has its own tough problems with the Federal Government, but realistic depreciation is another area in which all industry can get together and agree to pitch in because it is a problem that concerns all industry and in reality all of the people.

*From a talk by Mr. Sullivan before the 40th Annual Meeting, American Zinc Institute, St. Louis, Mo., April 14, 1958.

Join Hannaford & Talbot

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—William L. Appleby and G. Wesley Caldwell, Jr., have become affiliated with Hannaford & Talbot, 519 California Street, members of the Pacific Coast Stock Exchange.

B. A. McConnell Opens

PENSACOLA, Fla. — Beret A. McConnell is conducting a securities business from offices at 542 South Barrancas Avenue.

In Private Firm Division Of N. Y. Fund Drive

Donald F. Cook, partner of Reynolds and Company, and Harold A. Rousselot, partner of Francis I. du Pont and Company, are volunteer workers in the private firms division of the 1958 Greater New York Fund campaign.

Mr. Cook is Chairman of the American Stock Exchange group, and Mr. Rousselot is Chairman of the Commodity and Produce Exchanges group.

The Fund's goal in 1958, its 20th Anniversary year, is $11,000,000, to help 425 hospitals and health and welfare agencies.

F. S. Johnston, Jr. Now With Williston & Beane

Frederick S. Johnston, Jr. has been appointed mutual fund sales manager of J. R. Williston & Beane, 115 Broadway, New York City, members of the New York Stock Exchange.

He was formerly with E. F. Hutton & Co. as a specialist in mutual funds, and previously was an executive in the textile industry.

Loren Nowell Joins Shaw, Hooker & Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Cal.—Loren R. Nowell, Paul O. Buder and Richard L. Margraf have become associated with Shaw, Hooker & Co., 1 Montgomery Street, members of the Pacific Coast Stock Exchange. Mr. Nowell was formerly an officer of A. R. Nowell & Co., with which Mr. Buder was also associated.

Milo F. Clapp With Samuel & Engler Co.

(Special to THE FINANCIAL CHRONICLE)

COLUMBUS, Ohio — Milo F. Clapp has become associated with the Samuel & Engler Company, 16 East Broad Street. Mr. Clapp was formerly Vice-President of Dodge Securities Corporation with headquarters in Columbus.

Edward J. Jilek With Ira Haupt & Co.

DALLAS, Texas — Edward J. Jilek has become associated with Ira Haupt & Co., First National Bank Building. Mr. Jilek was formerly manager of the trading department for Municipal Securities Company and prior thereto was with Schneider, Bernet & Hickman. In the past he was with Stifel, Nicolaus & Co., Inc., in St. Louis.

Whitesell Synd. Mgr. For Cohen, Simonson

Clarence J. Whitesell has become associated with Cohen, Simonson & Co., 25 Broad Street, New York City, members of the New York Stock Exchange, as manager of the firm's newly opened syndicate department. Mr. Whitesell was formerly in the syndicate department of Townsend, Graff & Co.

Joins Hayden, Miller

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio — Charles E. Jones has become associated with Hayden, Miller & Co., Union Commerce Building, members of the Midwest Stock Exchange. Mr. Jones, who has been in the investment business for many years, was formerly with Baxter & Co. and Field, Richards & Co.

The Proposed Auto Strike

By ROGER W. BABSON

Financial editor and publisher writes on why he sees little chance of a lengthy strike, or even a strike at all, in the auto industry. Mr. Babson suspects the U.A.W. will conclude negotiations with increased Supplementary Unemployment Benefits and other "fringe" benefits increased only fractionally. Predicts auto makers will reject profit sharing and that wage increase demand will be compromised and take the form of a formula tied to changes in sales or profits.

It is not my custom to discuss strikes. Now, however, Mr. Reuther's asking that the negotiations be postponed until the tooling time comes truly arouses one's anger. This is a Soviet-type threat. Everyone should rise up against it.

What Labor Seeks

In this year of poor sales and profits in the auto industry, the UAW is boldly asking for a general wage increase equivalent to about 11¢ an hour. It also seeks a considerable broadening of the present pension plan, expanded hospitalization and insurance benefits, as well as more money for skilled workers. In addition to all these requests, the union is demanding that the Big Three—General Motors, Ford, and Chrysler—adopt a new type of profit-sharing plan. This seems to me a very poor time to make such an expensive and far-reaching demand, and I predict that the auto makers will refuse to go along with it.


Roger W. Babson

Likelihood of a Strike

Many observers believe that the current negotiations will result in a stalemate and finally in a strike. They contend that automobile industry managements are in a better position to stand firm against the more unreasonable demands of labor than they have been in recent years. I do not share this view about a strike of any length, and here is why:

The UAW treasury has already been hard hit because so many members are working only part time or are not working at all because of plant slowdowns and shutdowns. Only recently the UAW—in order to ease its financial position—was obliged to cut salaries of some employees. Although so far as is known, Mr. Reuther has not yet backed down on any of his 1958 demands, I forecast that in the end he will feel obliged to compromise and a strike should be averted. But if by chance a strike should be called, I believe it will be a short one.

What the Workers May Get

It is interesting to note that the Supplementary Unemployment Benefits plan now in force in the auto industry — and which the Union seeks to expand—was originated by management (Ford) and not by labor. I expect that benefits under this SUB plan will be increased as a result of the present negotiations. Other so-called "fringe" benefits may also be increased, but only fractionally.

Provision for a wage increase of the size asked for by labor now seems impossible. Perhaps management and labor will reach a satisfactory compromise on this issue. Possibly this will take the form of a sliding-scale increase or decrease tied up with sales volume or profits.

Labor-Saving Machinery

In all this discussion of negotiations between management and workers in this vital industry, I am afraid we are losing sight of one important fact: Labor's fortunes are still dependent on supply and demand. In recent years, management has shown more respect for the workingman and his place in our economy. As a result there is usually less wrangling in labor negotiations than was the case some years back. But management will not sit idly by forever and make concession after concession to labor, if labor does not do its part by boosting productivity and upgrading quality.

Unwise acts of labor unions tend only to stiffen the attitude of management and to hasten and increase demand for labor-saving devices. Automation will become more universal during the next 10 years. There will be vast changes in our labor situation during the next generation or two, changes calling for a series of adjustments on the part of both management and workers.

What Management Can Do

The agreements finally reached by the UAW and the large auto companies will undoubtedly have an eventual impact on other industries. What can management do to protect itself from the pitfalls that lie ahead? First of all, it must do more than simply give in to labor's every demand.

Management needs more intensive training in labor relations for it will still be quite dependent on labor even when automation becomes more widespread than it is now. If we are to avoid socialism in this country, management must have the capacity to look ahead and lead labor on to mutually better things. Such negotiations, however, must be carried on in a mutually Christian Spirit and without either side using Russian-type threats or sharp maneuvers.

Merritt Named to Head Municipal Bond Club

Wilbur M. Merritt, Vice-President of The First Boston Corporation, has been proposed by the Nominating Committee of The Municipal Bond Club of New York to be President for 1958-59, it has been announced.


W. M. Merritt

Others nominated were: For Vice-President, Daniel O'Day, Vice-President of the Northern Trust Company, Chicago; Secretary, John J. Ward, Assistant Vice-President of The Chase Manhattan Bank; Treasurer, James D. Topping, partner in J. D. Topping & Co.; Governors, John C. Fitterer, Jr., Kuhn, Loeb & Co., and E. Barron Rockwell, Vice-President of Halsey, Stuart & Co.

Elections will take place at the annual meeting which will be held at 1:00 p.m., Friday, June 13, in conjunction with the Club's field day at the Westchester Country Club, Rye, N. Y.

With Suburban Secs.

CLEVELAND, Ohio — Anthony P. Cognelio is now connected with Suburban Securities Co., 732 East 200th Street.

United States and World Trade: U.S.A. Policy at the Crossroads

By FRANCIS E. SIMMONS*

Manager, Washington Office, American Viscose Corporation

Trade Agreements Act renewal offers no relief to import-distressed American industries, nor will it foil the Communist economic offensive, Mr. Simmons states in asking how can the textile "or any other American industry vulnerable to low-wage import competition afford to consider the future with any assurance . . ." if the Act does not stop "predatory variety of competition" prohibited in the United States. The textile executive hopes that a bill to revise the Antidumping Act will be passed; complains foreign aid funds constitute a "double-barreled threat; refutes claims said to be used in support of Trade Agreements Act; and recommends selective flexible tariff formula to protect vulnerable domestic producers.

In addressing this particular subject at this time, I am reminded of an appropriate Scripture: "In the day of prosperity be joyful, but in the day of adversity consider. (Eccl. 7:14). The circumstances of our economy today make this timely counsel.

Francis E. Simmons

These are adverse days, as we are all too well aware. We owe it to ourselves to take time to consider seriously just where we as a nation stand on the matter of foreign trade policy, to review the road over which we have traveled, and to contemplate what is the best path to follow as we move ahead.

Few major issues have broader scope than our foreign trade policy, and yet manage to influence every level of our economy. Public attention focuses naturally on developments in Washington, but the impact carries right through to Front Royal.

Unfortunately, the clear dimensions of the issue itself have been blurred by some who imply that failure to give the Administration additional tariff-cutting powers for five more years might throw countless Americans out of work and drive our allies into the arms of Communism. I hope to help restore this national issue to sensible, realistic proportions.

I want to establish with you beyond question that a refusal by Congress to grant the President further tariff-cutting powers would in no way change the present tariff rate structure and, therefore, would not affect the volume of foreign trade that has been built up or jeopardize any of the jobs that depend on it. I will be obliged to explain more later as to the jeopardy to *other* American jobs from imports that have been dumped into the American market at unfair prices.

Since the passage of the Trade Agreements Act in 1934, American tariffs have been pared to the point where the United States stands as one of the lowest tariff countries in the world. Under existing rates, foreign exporters have found no difficulty in constantly increasing their volume of trade with this country, frequently to the distress of certain less adequately protected industries such as textiles, on which American Viscose Corporation is dependent for a substantial part of its market.

Trade Program Outmoded

I hope to enlist interest for I am convinced that in the long run, only the active support of informed citizens will pave the way to a sound, equitable solution to the foreign trade problem.

The Administration's program for a 5-year extension of the Trade Agreements Act, with further tariff-cutting authority, seems willfully dedicated to the interest of the internationalists without due regard for the effect on American industry. How can American Viscose Corporation or any other American industry that is vulnerable to low-wage import competition afford to consider the future with any assurance, while the Federal Government clings stubbornly to a program of the past?

No matter what new window dressing is installed or how many new coats of paint are applied, or the gadgets like "peril point" and "escape clause" that have been tacked on for vote appeal, the fact remains that the foreign trade vehicle we are asked to ride is still the model of 1934.

There is no need to point out the tremendous changes that have occurred in our national economy and international outlook in the past quarter century. Many completely new industries have come into being since the basic Tariff Act of 1930.

At that time the production of rayon staple, which now has become a major part of our industry and of AVC's Front Royal output, was nothing more than a fond hope. As a result, the tariff protection which was accorded the infant rayon yarn industry was not extended proportionately to staple, which has suffered progressively under the antiquated 1934 Trade Agreements Act and further tariff cuts.

Impact of Import Competition

As a result, 85 million to 170 million pounds of rayon staple (1955-1957 range) are delivered annually to American textile mills at prices American manufacturers can not match and remain in business. Imports last year exceeded the combined output of the American Viscose plants here at Front Royal and at Parkersburg, West Virginia. Most of this foreign-made staple was sold here at lower prices than it brought in its own home market, a clear case of the unfair trade practice of "dumping."

This, of course, is only one example of import market invasion. I could cite numerous other instances, such as the loss of 52% of the domestic market for hardwood plywood, 60% of the domestic market for watches and clocks, and nearly 70% of the domestic market for velveteen fabrics.

The plight of the velveteen industry strikes close to home. As recently as 1952, the Crompton-Shenandoah Company in Waynesboro employed 150 operators in its velveteen-cutting division. By the summer of 1957, after imports had over-run the market, this division was down to 17 workers. Any slight subsequent improvement is completely dependent on the forbearance of Japan.

Fair Competition Under Free Enterprise

Let me make it clear that we have no quarrel with competition. Healthy, give-and-take competition is part and parcel of the American economy. It has furnished the spark for economic growth and vitality.

But there are two kinds of competition. One involves a match under mutually advantageous ground-rules. This is the kind of competition under which America has flourished. The other kind is the predatory variety of competition which we decided long since to prohibit in the United States.

Domestic market practices are regulated by the Robinson-Patman Act to prevent price discrimination; the Fair Labor Standards Act to control hours of work and hourly earnings; anti-monopoly laws; and numerous other equalizers in the interest of healthy competition.

Similarly, the tariff structure was intended originally by Congress to equalize conditions of competition, particularly labor costs, between American producers and their foreign competitors. We ask no quarter on technology and manufacturing efficiency, but sweatshop labor outlawed in this country is no more palatable when it originates abroad.

American business is compelled to be ruggedly individualistic under the anti-monopoly laws, whereas the combinations, agreements, and restrictive practices of foreign cartels or other groups are well known. We know from experience how difficult it is to enter their markets and how free they are to invade ours.

Antidumping Act Ineffective

I want to emphasize especially the comparison between the Robinson-Patman Act, which abhors price discrimination by domestic sellers, and the Antidumping Act, which seeks to prevent foreign producers from selling to our market at less than they sell in their own market or elsewhere. This type of predatory pricing, known as "dumping," is frowned upon generally among the free nations and by the General Agreement on Tariffs and Trade (GATT). Congress attempted to outlaw it in the Antidumping Act of 1921, but unrealistic definitions and resultant court decisions have defeated the purposes of the Act.

Let's look at the record. Since Jan. 1, 1934 the Government has handled 198 cases of alleged antidumping violations, with finding for domestic industry in only eight cases. Speaking of longshots, American manufacturers, seeking to invoke the Antidumping Act, confront odds of 25-to-1.

The American rayon staple industry finds itself among the 190 applicants who tried, and lost. It took its complaint to the Treasury Department in 1954. The Customs Bureau found *prima facie* evidence of dumping. The Department of Commerce determined that the domestic industry was being injured.

Under the terms of the Antidumping Act of 1921, we expected relief in the form of an antidumping duty, which would simply have brought the price charged by foreign producers to the American market up to the price charged at home. We were denied that relief because foreign producers resorted to a subterfuge that evaded the Act. That is why the industry is so concerned for enactment of H.R. 6006 by the present Congress to revise the Antidumping Act. This has been passed by the House of Representatives and is currently pending in the Senate Finance Committee, headed by Senator Byrd.

As far as the foreign producer is concerned, the windfall profits made possible by a slipshod Antidumping Act are simply icing on the cake, since he already enjoys the advantages of our low-tariff policy and Washington's strong resistance to measures which might draw frowns from foreign governments.

Free Trade Attractive Theory, Poor Practice

The avowed goal of the free-trade campaign makes good propaganda for the uninitiated—it sounds so ideal. A world free of tariffs and quotas and other encumbrances to the flow of goods between nations, as told by the Americans for Democratic Action and others, is an inspiring thing to contemplate.

Then another American textile mill or tableware factory is snowed under by imports, and we recognize once more the painful disparity between free-trade idealism and the economic facts of life as they apply to foreign trade in this day and age. Suppose we take a few moments to examine some of these facts.

"What the Traffic Will Bear"

A favorite argument of the free traders is the alleged advantage to the consumer from lower prices. That idea is as vain as the freedom and democracy of Communism. Experience is all to the contrary. Let me demonstrate that fallacy.

When the domestic industry has been subject to price controls, as during the World War II emergency, competitive imported products have sold at the highest prices the market would support. In 1946, postwar demand for rayon staple encouraged heavy imports. While domestic staple sold at an OPA price ceiling of 25 cents a pound, imported staple was selling at around 40 cents a pound.

In 1947, when domestic prices rose to an average of 32 cents, foreign staple sold here at about 45 cents. Given a market and ineffective competition from American sources, foreign suppliers charge exactly as much as the traffic will bear with none of the altruistic concern for consumers claimed for them by free traders.

Wage Differentials—U. S. And Foreign

Another point at which the free trade theory bogs down is on wage standards. We commonly regard high wages as an economic asset, placing unmatched purchasing power in the hands of America's consumers and sustaining our high levels of production. In competing with foreign labor, however, the American worker with the world's highest earnings is at a decided disadvantage. That disadvantage carries over to the industries paying those wages.

In our industry, for example, the average hourly wage is about $2. Our chief competitors in West Germany pay their workers less than 50 cents an hour; in Japan, about 20 cents. The American woolen worker averages about $1.60 per hour. His British competitor is paid 50 cents. The Bureau of Labor Statistics comparisons for other industries and countries show the same wide disparity.

Productivity Comparisons Narrowing

When this differential in wage costs is mentioned, the free trader argues: "Yes, you pay high wages, but you also out-produce foreign workers." We could wish this to be an effective offset, but it is increasingly inapplicable. American industry's productivity generally is unexcelled, but in certain lines of manufacturing, including rayon, foreign producers equal and sometimes excel American output. In any event, it would be small comfort to an unemployed American to learn that it takes *two* foreign workers each drawing 50 cents an hour to produce what he could make at $2 per hour in the same space of time. That foreign labor still would cost only half as much as American labor.

Moreover, the gap between productivity here and abroad is closing much faster than the wage gap. The Organization for European Economic Cooperation, representing 17 nations of Western Europe, reports that from 1950 to 1955 industrial production rose 33%, while American output per man-hour was increasing only 12%. Gains in certain European countries in that period out-distanced our own growth as much as 3-to-1; Italy's, for example, climbing 44%, and West Germany's 35%.

For the rayon industry, productivity here and in the major foreign producing countries is much the same. The great majority of the vast Japanese capacity, which rivals that of the United States, has been built since World War II with the most modern of machinery and equipment. The same applies to Germany and many of the other European producers. The real point of price competition, therefore, is not on cost of raw materials or efficiency of management but specifically labor costs.

Foreign Aid Double-Barreled Threat

There is, of course, no good reason why foreign industries should *not* be developing rapidly. Many of these industries have been subsidized by American foreign aid. Our postwar outlays for foreign aid are approaching $70 billion, and a healthy share of this has been fed into foreign factories and equipment, even to raw materials for producing rayon.

Members of Congress are interested increasingly in diverting more ICA-administered foreign-aid dollars to domestic industry, by purchasing more from our own producers. Spokesmen for both the Northern and Southern textile industry have been especially vocal.

If the experience of American Viscose Corporation is any guide, the influences of the entire textile industry and its Congressmen will be taxed to wrest any relief from the Administration even though Congress has made adequate provisions. Section 510 of the Mutual Security Act provides that "Funds . . . may be used for the procurement of commodities outside the United States *unless the President determines that such procurement will result in adverse effects upon the economy of the United States, with special reference to any areas of labor surplus . . . which outweigh the economic advantages to the United States of less costly procurement abroad.*"

The plight of the textile industry and the resultant surplus of labor have been evident for many months, but foreign aid funds supported by our heavy taxes continue to be spent for the benefit of foreign textile industries. Of nearly $100 million paid for fabricated textiles in fiscal year 1957, 93% went to "offshore" or foreign textiles. Nearly 90% of the $10 million spent for textile machinery went to "offshore" suppliers.

In 1956, the International Cooperation Administration, which administers our foreign aid program, announced invitations for more than $10 million worth of rayon staple and related products, chiefly for South Korea. As our industry at that time was depressed by cutbacks in auto production, textile output, and housing construction, the ICA business appeared most inviting. We soon found it was an empty hope.

We learned that South Korea planned to spend the funds it received from ICA, your tax dollars and mine, to buy Japanese and Italian rayon. Additional millions of dollars were expended for rayon again in 1957 and other lucrative invitations on rayon are pending currently, but it is safe to say that they will not accrue

*An address by Mr. Simmons before the Front Royal Rotary Club, Va., April 18, 1958.

to the benefit of our American industry.

ICA blandly disclaims responsibility for these so-called "commercial transactions," since it purports to deal directly with foreign governments which may then place their orders where they choose. This contrasts sharply with the prevailing attitude of other nations, such as France and Great Britain, which decided long ago that foreign aid, like charity, begins at home and that foreign aid funds should be spent originally for their own products.

Foreign Aid Wins Few Friends

Despite our open-handed generosity, we can never be sure that our sacrifices will stand us in good stead in a showdown with Russia. A newspaper poll (N. Y. "Herald Tribune") of 11 nations, all but one recipients of United States aid, showed that 9 of the 11 favored a neutral course if our country goes to war with the Soviets.

Public opinion favoring neutralism ranged from 94% in Sweden to 54% in Great Britain. In between were Austria, Norway, Belgium, Italy, France, West Germany, and Brazil. Only Australia and the Netherlands indicated a majority willingness to join the fight. The United States has suffered particularly embarrassing disillusionment from its "pay-as-you-go" goodwill overtures to Nationalist China, Egypt and Saudi Arabia.

Whither Trade Agreements?

While, on the one hand, we are learning from costly experience that our aid dollars have bought far less than we expected, we are told we can gird up the solidarity and strength of the Free World by extending the Trade Agreements Act of 1934 for the 11th time, and for five more years.

This is the proposal which many American industries are bitterly protesting. Most of the controversy centers on the power of the President to reduce our tariffs and enter into trade agreements. Our Constitution, the charter of our democratic self-government, specifically states that Congress shall regulate the nation's foreign commerce and that treaties with other nations are subject to ratification by two-thirds of the Senate. Administration of the Trade Agreements Act sidesteps both of these mandates.

Foreign Trade Employment

Perhaps the strongest, yet most misleading, argument now making the rounds on behalf of the Trade Agreements Act is that 4½ million American jobs depend on granting the President authority to reduce our tariffs still further. They claim that only a handful, perhaps 100,000, could lose their jobs if all tariffs were removed. With millions *already* out of work, this would be a potent argument if true, but it is *sheer nonsense.*

For one thing, we know that imports furnish payment for only two-thirds of our exports. The other third is financed by dollars collected abroad through foreign aid, tourist and GI spending, private investment, and other transactions. Accordingly, *one-third* of export-dependent jobs is independent of the tariff issue.

Furthermore, we know that *one-half* of our *imports* enter tariff-free. These are commodities like coffee, tea, spices, crude rubber, tin, and other materials and products which we need but cannot make or grow for ourselves—and which have no part in the tariff issue. Of the remaining 50% of our total imports, about one-half carry only nominal or token duties, thus having little bearing on the tariff question.

Boiled down, this analysis shows, quickly and convincingly, that the sensitive area of our foreign trade represents only 16 jobs out of every 100 claimed as export-dependent. And even these 16 jobs would be affected only if a steep tariff wall were to be raised, a step which no one is proposing.

Tenuous Tie With Peace

Perhaps the next most popular claim in support of continued tariff reduction is that unless we take the initiative in abolishing trade barriers, we are likely to lose the Cold War by default. We've been shrinking tariffs right and left ever since World War II, so that cynics might question why we've been on the short end of most Cold War encounters anyway. Has some occult transformation taken place, that we will now be able to obtain with the same mechanism the things that have eluded us in the past? In spite of repeated American protests, our allies are more and more embracing Iron Curtain markets. This trade has almost doubled in the last six years and new negotiations are now under way.

The record of totalitarian slave-states should convince us that no amount of tariff tinkering will discourage the Communists from buying what they want, whenever and wherever they can find it. As long as political motivation is their interest, Soviet hucksters will buy with little regard for price, sell with less regard for cost, and swap with no regard for gain other than subversion and infiltration.

Americans would do well to ask themselves: If 24 years of continual tariff cutting, and more than 10 years of costly foreign aid, have failed to thwart the Communist challenge, how can we succeed with the same tactics for five more years?

Obviously that course *cannot* expect to succeed. We can only hope to keep foreign governments and foreign industries smiling in our general direction. If we are willing to settle for that vanity, we must be prepared to see more and more foreign products crowding their way into the American market, and more and more domestic industries and workers struggling for survival. This experience of the past will harry our future unless we improve the system forthwith.

Flexible Tariffs Recommended

Wouldn't it make more sense to adopt a selective, flexible tariff formula to balance the interest of vulnerable domestic producers with the wishes of foreign manufacturers? Isn't it sensible to build up, rather than undercut, our domestic mobilization base in perilous times, while continuing our efforts to strengthen the Free World through truly beneficial two-way trade?

This, in short, is the issue as it awaits the decision of Congress: whether to re-embrace the 24-year-old Trade Agreements Act under a new paint job, or to adopt a new and mutually satisfying program. That is a decision in which we all have a stake, and should, therefore, make our views known to our elected representatives in Congress.

The critical determination on Trade Agreements is about to be made in the powerful House Ways and Means Committee where distinguished Representative Burr P. Harrison is an influential member. Subsequent to House action it will proceed to Senator Byrd's Finance Committee.

To conclude our discussion, as we began, with a penetrating quotation from the Scriptures, Christ admonished His contemporaries: "Ye can discern the face of the sky; but can ye *not* discern the signs of the times?" (Matt. 16:3). That, I think, sums up the problem and the course we must take in solving it. Congress today, in adversity, must *consider* carefully, *discern* the signs of the times, the changes of the past quarter century and their persuasion for a new United States foreign trade platform.

Chicago Analysts to Be Hosts at Dinner

CHICAGO, Ill.—The Investment Analysts Society of Chicago will be hosts to Eastern analysts passing through Chicago on their way to the convention of the National Federation of Financial Analysts Societies to be held in Los Angeles.

A special Belt Railway tour on the new Hi-Level El Capitan coaches, as guests of the railroad, is planned for 1:15 p.m. A cocktail party will be held in the Crystal room of the Union League Club at 5:30 p.m. Dinner will be served at 6:30. Tariff for dinner is $6.50.

Saunders, Stiver Adds

(Special to The Financial Chronicle)

CLEVELAND Ohio — Guy R. McLaughlin has been added to the staff of Saunders, Stiver & Co., Terminal Tower Building, members of the Midwest Stock Exchange.

With John A. Kemper

(Special to The Financial Chronicle)

LIMA, Ohio—William K. Hughes has become associated with John A. Kemper & Co., 121 West Hight Street, members of the Midwest Stock Exchange.

With Lakewood Secs.

(Special to The Financial Chronicle)

LAKEWOOD, Ohio—Theodore R. Newell, Jr. is now with Lakewood Securities Corp., 14714 Detroit Avenue.

Taking a Short and Long Look At Government Expenditures

By DR. WILLIAM F. BUTLER*
Vice-President, Chase Manhattan Bank
New York City

Chase Manhattan's economist previews short and long run government spending and reviews recent economic trends in order to evaluate future prospects. Dr. Butler believes substantial deficit financing is in prospect for last half of 1958 and should stimulate the economy, and that business activity now is bottoming out. Advises against a tax cut unless present downturn does not, after all, reverse itself in next month or two. Finds we have fallen short in civilian government spending needed to support economic growth.

I propose to try to do two things. The first is to set forth my appraisal of the immediate outlook for Federal Government receipts and expenditures and their impact on the economy. The second task I have set for myself is that of providing a somewhat longer perspective on government expenditures by looking both backwards and forwards over a span of years. Actually, I consider the second task to be the more challenging one.

William F. Butler

However, let us turn first to the outlook for the immediate future—say through mid-1959. As a first step I'll set forth the projections of Federal receipts and expenditures I have been using in trying to assess the business outlook:

	Jan.-June 1958	July-Dec. 1958	Jan.-June 1959
	(Billions of Dollars)		
Receipts	$47.3	$35.1	$46.8
Expenditures	44.3	45.1	46.5
Surplus or Deficit	+3.0	—10.0	+0.3

It seems clear that we are moving into a period of substantial deficit financing. Moreover, we are just beginning to feel the economic impact of this shift to deficits. In the first half of this calendar year, the Federal Government will run a surplus at an annual rate of approximately $3 billion. But in the second half a deficit on cash account of perhaps $10 billion at annual rates is in prospect. In other words, Federal fiscal operations will siphon cash out of the economy at an annual rate of $3 billion in the first half and will add to consumer and business purchasing power at a $10 billion rate in the second half. I believe there is general agreement among economists that such a shift in government fiscal operations provides one of our important defenses against recessions.

Deficit Financing's Impact

What is the economic impact of the shift to deficit spending now in prospect likely to be? First, I think it is important to point out that it is small in relation to the total economy. The projected swing from surplus to deficit works out to 3% of last year's gross national product. Interestingly enough, a similar calculation for 1948-49 yields a 3.7% figure. In 1953-54 such a swing did not take place, as both expenditures and taxes were cut. However, the reduction in taxes put into effect then amounted to 2% of the prior year's GNP.

A second way to measure the impact of a shift to deficit spending is to compare it with the change in gross national product. Such a comparison shows that the impact of fiscal policy was large in relation to the decline in GNP in 1948-49 and 1953-54. In 1948-49 it was 10% greater than the decline in GNP from the peak quarter to the low quarter. In 1953-54 the tax cut amounted to about three-fourths the decline in GNP from peak to trough.

In the current recession, GNP has already declined by a rate of $16 billion or 4%. However, the shift in Federal fiscal operations in prospect for the remainder of the year is about equal to that decline.

In making these comparisons, I do not wish to attach undue importance to the historical parallels. My purpose is simply to make the point that the shift to deficit spending now in prospect is of the same general order of magnitude as the fiscal policy measures adopted in the two previous recessions. This does not necessarily prove that the current recession will prove as moderate and short-lived as the previous two.

Whether government should take more vigorous action this time depends on what is likely to happen in the private economy. Thus the next step is to review recent economic trends as a prelude to an evaluation of future prospects. Estimates of the Council of Economic Advisers show that the following factors have been operating in the current recession:

	*Change
GNP	—$16.0
Consumption	— 2.6
Fixed Investment	— 2.5
Inventories	— 10.5
Net Foreign Investment	— 1.7
Government	+ 1.3

*Third quarter 1957 to first quarter 1958 in billion of dollars at annual rates.

Projects Economic Trends

How do present prospects for the year ahead line up in each of these fields? Clearly further reductions lie ahead in business investment in new plant and equipment and in exports—they might yield minus pressures of $6-7 billion. Government expenditures might rise by as much as $8 billion in the coming year, with $5 billion of the increase coming at the Federal level. Housing might rise a bit. If such trends developed in these key areas, it is unlikely that consumption would decline, and it could increase later in the year. Such trends could produce a turn-about in the inventory sector, leading to a resumption of inventory accumulation by early 1959.

These projections obviously involve a series of assumptions that cannot as yet be firmly documented. We are in the difficult and trying period of the business cycle in which a leveling of the decline may be in the making. But it is still too early to see in the statistics the clear evidence of such a leveling, in part because the lag in statistics behind the facts.

Sees Cycle Bottoming Out

It is my personal opinion that the business curve is now bottoming out, and that we shall see a renewed advance before year's end. In my view this is the most probable course of events. It is, however, part of the law of probabilities that the improbable occasionally happens. So one cannot rule out the possibility that the downtrend might begin to cumulate. To my mind the next month or two will be the test period—but I confidently expect that in this period we will begin to see the early signs, first of the leveling and later of the upturn.

Because of this belief, and because I believe we are likely to see some further increases in government expenditures in the years ahead, it is my judgment that an immediate tax cut would be unwise. If, however, signs should appear in the next month or two that the downturn is beginning to snowball, I would think that a tax cut would be in order. And I would agree with those who argue that we need to develop greater sophistication in these matters — if we are to deal successfully with recessions and inflations in the future, we must learn to cut taxes when demand sags and to increase them when the economy is under inflationary pressure. Yet I think we have much to learn about the appropriate timing of tax action and about the problem of securing public support for the use of fiscal policies to combat recession and inflation.

Long Run Federal Spending

To turn to the longer-term outlook for government expenditures, I should like to introduce some concepts and supporting statistics which may help provide needed perspective. It seems to me that discussions of this subject are frequently misleading because of a failure to take the following three factors into account: (1) inflation; (2) the growth in our population; and (3) the huge increase in national security expenditures. I have prepared a chart illustrating government purchases of goods and services on a per capita basis, measured in constant 1957 dollars, for the period since 1913. Since the purpose of government in our society is to serve the people, it seems to me appropriate to use the per capita measure in looking at long-term trends.

I would draw the following conclusions from the data:

(1) National security expenditures clearly dominate the picture—if they could be reduced as a result of the attainment of a viable reduction in world political tensions, the burden of taxation could be substantially reduced.

(2) Government expenditures on civilian activities have increased—but the rate of increase has fallen short of past trends.

In looking ahead, it seems to me that these trends pose very real problems of choice to our society. In the short run we can, quite properly, hold back other programs to give priority to the needs of national security. But if the external threat is to persist, we must be concerned about the adequacy of our efforts in other necessary directions. For example, the long-term trend shows that we have increased education expenditures per student about 4% per year (in constant dollars) since 1910. Certainly we wish to continue if not accelerate the improvement in our educational system. As another example, the long-term trend shows a $4\frac{1}{2}$% per annum increase in our public investment in such fields as highways, hospitals, water supply systems and urban betterment.

Fallen Short in Federal Spending

In recent years, we have about matched the long-term trend of increasing expenditures per person in education, but we have fallen short of it in other fields of civilian government endeavor. If our economy is to grow and prosper, we must provide the public assets and the public services needed to support growth. So long as national security requirements remain high, increases in other areas to meet the needs of our growing population will pose real problems.

In making these points I do not wish to imply that I support any and all government expenditures. On the contrary, I believe we need to scrutinize most carefully existing programs to see where economies can be achieved. The very magnitude of necessary government expenditures in the period ahead emphasizes the importance of concentrating on essential fields and of stressing efficiency in government.

Meantime, we must seize every opportunity to encourage the growth of the private economy. If we can match, or hopefully exceed, past rates of economic growth, we can meet necessary requirements in government fields and still achieve a substantial growth in the private economy. Thus, we should reform our tax system to reduce the impediments to growth and we should orient other government policies and proceedures to the general objective of increasing our rate of growth.

FEDERAL FISCAL POLICY IN THREE RECESSIONS

	Shift in Federal Fiscal Policy (Billion)	As Percent of Prior Year's GNP	As Percent of Change in GNP
1948-49	—$9.3	3.7%	110%
1953-54	+ 4.9	*2	*75
1958 First Half-1958 Second Half	—13.0	3	81

*Tax cut of $7.4 billion as percent of prior year's GNP and change in GNP.

*A statement by Dr. Butler before the Subcommittee on Fiscal Policy, Joint Economic Committee, Washington, D. C., April 28, 1958.

Ijams Heads Group For Greater NY Fund

Maitland T. Ijams, of the syndicate department of W. C. Langley and Company, is Chairman of an investment bankers group in the private firms division of the 1958 Greater New York Fund campaign.

Maitland Ijams

Head Floor Brokers Division in Fund Drive

Walter N. Frank, of Marcus and Company; Otto A. Schreiber, of Mitchel, Schreiber, Watts and Company, and Stuart Scott, Jr., of Carlisle and Jacquelin, are co-chairmen of the Stock Exchange floor brokers group in the private firms division of the 1958 Greater New York Fund Campaign.

More than $3\frac{1}{2}$ million people are served by the 425 hospitals, health and welfare agencies helped by the Greater New York Fund.

Exhibit at Center Of Merrill Lynch

An exhibit of the American Smelting and Refining Company's metallurgical accomplishments is on display at the Investors Advisory Center operated by Merrill Lynch, Pierce, Fenner & Smith, at the Grand Central Terminal.

George A. McDowell

George A. McDowell, of Detroit, a partner in Straus, Blosser & McDowell, passed away Apr. 27.

James W. Davis Forms Davis Securities Co.

DALLAS, Tex.—James Walker Davis has announced the opening

James Walker Davis

of Davis Securities Company with offices in the National Building, to engage in an investment business. He was formerly President of Davis & Company.

Long Island Lighting Offering Underwritten

Long Island Lighting Co. on May 2 issued to the holders of its common stock rights to subscribe at $22.25 per share for 696,260 shares of additional common stock (par $10) at the rate of one share for each 10 shares held of record on April 29, 1958. The subscription offer will expire at 3:30 p.m. (EDT) on May 15, 1958. The offering is being underwritten by a group of investment firms managed jointly by Blyth & Co., Inc., The First Boston Corp. and W. C. Langley & Co.

The net proceeds to the company from the sale of the additional common stock and from a scheduled sale of $20,000,000 first mortgage bonds will be used for construction of utility plant and to pay short-term bank loans used to redeem $12,000,000 first mortgage series C 3% bonds due Jan. 1, 1958.

Construction expenditures for the period March 1, 1958 to Dec. 31, 1959 are estimated at $87,000,000 and the company reports that some further financing will be necessary to fully cover these requirements.

Dividends on the common stock have been at the rate of 30 cents quarterly since early 1957. A quarterly dividend of 30 cents payable May 1, 1958 to stockholders of record April 11 will not be paid on the common shares involved in the current offering.

Long Island Lighting supplies electric and gas service in Nassau and Suffolk Counties, which comprise the eastern portion of Long Island and in a section of Queens, an area having a total population of 1,800,000. More than 78% of revenues is derived from electric service. For the 12 months ended Feb. 28, 1958 total revenues were $112,341,000 and net income $13,018,000, equal after preferred dividends to $1.50 per share on outstanding common stock. For the 1957 calendar year revenues were $109,862,000 and net income $12,581,000 or $1.44 per common share.

Field Day Announced By L. A. Bond Club

LOS ANGELES, Calif. — The annual Field Day of the Bond Club of Los Angeles will be held on June 6 at the Oakmont Country Club in Glendale. Bond Club President, Warren H. Crowell, of Crowell, Weedon & Co. reports Leo B. Babich, of Hill, Richards & Co. has been appointed Field Day Chairman, and is preparing a full day of activities and entertainment for Bond Club members, who are expected to turn out in record numbers at the June event.

Treating This Recession

By J. A. LIVINGSTON*
Financial Editor of Philadelphia "Bulletin"
Writer of Syndicated Column, "Business Outlook"
Author of "American Stockholder"

Nationally known financial writer calls attention to government spending's new role as an economic stabilizer, in differentiating today's economic conditions with those of 1929, and expects scheduled spending to "act as a holding force and gradually start an upturn." Mr. Livingston suggests during this recession period such "house cleaning" tasks as: (1) cost and price reduction, and realism in auto and steel wage bargaining; (2) overhauling consumer price index and raising Federal debt limit; and (3) using tax cut as a last resort.

In trying to "treat" this recession, we ought not to be panicked by similarities to 1929. It is true that this decline has started 12 years after a major war; the 1929 decline came 11 years after. It is also true that housing, which was a premonitory symptom of the end of prosperity in the late '20s, has turned down this time. It is likewise true that capital expenditures of corporations and railroads have started to decline, even as in the late '20s. Those are important similarities.

J. A. Livingston

But there is a fundamental structural difference. Government has become Big Business in the United States, a $110-billion-a-year business. It is a social force, an economic force, and, in the current recession, a stabilizing force.

Federal, state, and local government outlays constitute more than a quarter of the gross national product. One person out of four directly or indirectly derives his job, his income, from government. And the proportion will be even higher this year, because of increased government outlays and a drop in private outlays.

Boost from Federal Spending

Federal expenditures are scheduled to rise from $73 billion in the current fiscal year to $77.8 billion in the 1959 fiscal year, an increase of just under $5 billion. Receipts, on the other hand, are expected to fall from $70.3 billion to $67.8 billion. So, from a $2.6 billion deficit in the 1958 fiscal year, we will go up to a $10 billion deficit. Actual Federal outlays might rise from a current monthly rate of $73 billion a year to $77½ billion by December, and $79 billion by June, 1959. That's a strong uptow.

As yet, there is no positive evidence that the business recession has reached a bottom. The best we can say is that the rate of decline has diminished. But it is not unreasonable to think that total expenditures for defense, for public works, and for housing will act as a holding force and gradually start an upturn.

Wants Debt Limit Raised

If this rate of outlays is to be achieved, it would be wise for Congress to raise the debt limit. It would be inexcusable fiscal oversight to permit a ceiling on debt to repress anti-recession activities. We could have a repetition of what happened last year. As the Treasury approached its debt limit, defense payments to contractors were held up, contributing to the downturn then developing. I recommend a rise in the debt limit from the current level of $280,000,000,000 to at least $285,000,000,000. (I might say, parenthetically, that I question the advisability of a debt limit. If Congress appropriates money for expenditures and does not correspondingly provide taxes, why should not that be interpreted as an authorization for an increase in the debt?)

I know five million persons are out of work. I know that nothing is so distressing, so humiliating, as wanting work and not finding it. I, personally, went through that experience during the Great Depression. A jobless man loses faith in himself. He wonders if he's no good. He becomes discontented with the social order. We cannot permit unemployment to climb much higher, or to last for a long time.

Meanwhile, we ought to use the recession for what recessions are for—house cleaning. I'm not suggesting hairshirtism for hairshirtism's sake. Recessions have a function. They force people to adjust to changed conditions. The automobile industry is finding out that people are not interested in chrome, and size, and functionless design in cars. This is hard on auto workers, on steel workers, on auto dealers. Some workers in Detroit and elsewhere may have to find jobs in other industries as a result of this changing market. Some dealers may have to go out of business. The recession forces adjustments, some of which are socially necessary.

In a recession, business men are forced to cut down on extravagances and waste. Labor leaders who had been operating on the theory that the marketplace would justify all of their demands for higher wages discover that the marketplace is not a perpetual support for higher and higher wages. That's what Walter Reuther, of the United Auto Workers, is up against in his current negotiations with the auto companies. The UAW officers are cutting their own pay.

In the prosperity boom, business men and even the Federal Government were willing to pay any price for labor peace. Charles E. Wilson introduced cost-of-living, long-term contracts into the auto industry. These have spread through a large sector of industry. These contracts constitute built-in inflation. They're also built-in trouble.

July Steel Negotiations

In the steel negotiations of 1956, the Federal Government intervened to stop a strike. The result, so it has been said, was that the steel companies granted a lucious contract to the United Steel Workers. It was an election year.

The United Steel Workers of America has a contract which calls for wage and fringe benefits which will raise wage costs in July an estimated 20 cents an hour. This will squeeze the profits or add to losses of steel companies. It will tempt the companies to try to raise prices. This wage increase comes at a most inopportune time. David J. McDonald, President of the United Steel Workers, has said that his union has something new to offer society —the "mutual trusteeship" of labor leaders and corporate executives in which "everyone must give full consideration to the others' needs." It would be well for McDonald to show some trusteeship, some fiduciary responsibility, to the public now.

In 1948, the steel companies voluntarily reopened a wage contract with Philip Murray when wages of steel workers fell behind the wages of other workers. Later, during the Korean War, Walter Reuther, arguing that long-term wage contracts ought to be "living documents," managed to get a cost-of-living adjustment under his contract with the auto companies.

This is a period which calls for "living documents" — wage and price restraint. A wage boost will help those steel workers who are still on the job. It won't help those steel workers who have been laid off; it won't help steel workers who are drawing unemployment benefits; it won't help other workers who will, ultimately, have to pay higher prices for things made out of steel—automobiles, refrigerators, washing machines, nails.

Cost-Price Reduction

This is a period for cost reduction, for price reduction. Mr. McDonald can't be expected, unilaterally, to shoulder the entire burden of high costs. But he could forego part of the forthcoming increase if the steel companies cut prices.

Most steel companies have been operating at a profit at 50% of capacity. They can afford to make a contribution to recovery along with the union, and so help all consumers. The government should use all its powers of persuasion to bring about an adjustment in the steel wage contract and steel prices. This would be poetic retribution for its part in the steel wage negotiations of 1952.

Overhaul Consumers Price Index

Finally, the Consumers Price Index ought to get an overhaul. The last major revision was in 1951-52—more than six years ago. Consumption habits have changed and new influences have come into marketing. Bureau of Labor statisticians and economists are aware of these influences but cannot always make suitable adjustments.

For example, the quality of service and of product tends to improve. In autos, we have automatic transmissions, power brakes, hillholders. The BLS tries to factor out such improvements from price. Similarly, in supermarkets, fresh vegetables are packed in plastic wrappers and are cleaned. The housewife gets a fresher product, a cleaner product. She can shop more quickly and spends less time in the kitchen. She gets built-in maid service. Does the food part of the index adequately take into consideration the improved quality? Long distance telephone service has been speeded up by inter-city dialing. How much of the increase in the telephone bill is better service and how much the higher price of living. Or take the repair and maintenance of TV sets, automobiles. They've become more complex. A mechanic who deals with a power transmission has to be more highly skilled than one who deals with an ordinary shift. He gets a higher price per hour — deservedly. So repair costs go up. Why? Because of more complex service—and not entirely because of higher prices.

The market basket has changed. We eat TV-pre-cooked dinners. Six years ago said dinners didn't exist. We have shifted, perhaps, from higher to lower cost foods—from meat to fish as meat prices rise. We need to know what people consume now, not what they consumed six years ago.

Part of the rise in wages under escalation contracts in the last five years has been due to a built-in upward bias in the BLS index —to improvement in quality. Workers have benefited from a hidden uptrend. An improved index would improve the yardstick.

To sum up, I have these recommendations:

(1) Raise the U. S. debt ceiling.

(2) Extend unemployment compensation payments.

(3) Use the government's powers of persuasion to modify the forthcoming rise in steel wages.

(4) Re-examine the Consumer Price Index.

(5) Hold in reserve a tax cut. It may be required to prop purchasing power, but in view of the prospective large increase in the Federal deficit, I'd use it as a last resort.

*Statement by Mr. Livingston before the Subcommittee on Fiscal Policy of the Joint Economic Committee, Washington, D. C., April 29, 1958.

THE MARKET . . . AND YOU

By WALLACE STREETE

The stock market and the economy were at rather opposite poles this week, the industrial average standing at the highest level seen in seven months. Even the railroad average was at a peak for more than half a year while the overall economy, apart from high hopes for a second-quarter rebound, was still reeling on sorry earnings and dividend news.

* * *

The strong market performance didn't generate anything even approaching fears of a runaway bull market since the major indices are in an area of heavy congestion. But its strength was "near-miraculous in view of the business background which is not exactly a new story but was only made more convincing in the push to new highs for the year.

* * *

The badly depressed motors, particularly Chrysler, and the equally slow-moving steel industry, Lukens and National Steel standing out on occasion, were able to join in when the market going was good. About the only concrete background to warrant optimism in these areas was a slight pickup in steel operations but the mills were only running at half capacity at best.

Increased Selectivity

The new peaks for the averages were a bit of statistical juggling since so many of the components, particularly the chemicals, aren't in any position to even begin tackling their peaks of 1957 and 1956. The same holds true for the motors. A good part of the strength was due to a handful of components including American Can, American Tobacco, Corn Products, General Foods, Sears Roebuck and Procter & Gamble which were the blue chips that were exceeding last year's peaks to give the industrial average overall strength.

* * *

Chrysler was some three dozen points under last year's high as was Union Carbide while Allied Chemical, du Pont, National Steel, Goodyear and United Aircraft were a score or more points below last year's best.

* * *

It would seem to add up to the fact that selective markets are around to stay in this era when professional activities loom so large in the daily trading.

* * *

As far as business results are concerned, the best lines profitwise have been the can, meat packing, natural gas, aircraft, stores, vegetable oil-soap lines, textiles, food products, soft drinks and electronics. The softer spots have been steels and autos, as is well known, plus rubber, copper, chemical, machinery, aluminum and coal lines.

* * *

There was a disposition as far as the market is concerned to follow only strength which has lifted into prominence the utility, drug, tobaccos, etc. The opposing school favoring lines where the unfavorable news is mostly over and the issues well depressed, was hunting among the paper, building supplies, distillers, textiles and oils.

Building Activity Expectations

Much was made in some quarters of the prospects for much more activity in the home-building sphere this year. This makes the prospects bright for the companies allied with building activities although in the case of Georgia Pacific Corp. in the plywood group the lag in housing starts didn't hurt its business to any great extent.

* * *

In fact, Georgia Pacific showed a 32% increase in sales in 1956 and nearly 22% more last year—the two years when housing was definitely in a downtrend. For this year the projection is for still more improvement even without the pickup in housing activity being figured in. In all, if the improvement in housing starts materializes, Georgia could show improvement of better than a dollar a share which would make the issue an undervalued one on a times-earnings basis alone.

* * *

Also counting on housing for a lift is Flintkote which has also shown superior ability to get along nicely while housing was in a decline. Its earnings for the last half dozen years have held around $3.50 with remarkable stability. The high was $3.88, the low $3.40, which amply covers the $2.40 dividend requirement and hints at sustained earnings for this year again.

Distiller Beneficiaries

In the distilling section the perennial hope when Congress is in session is Schenley which has been fighting steadily, and so far hopelessly, to get an amendment to the law that requires payment of the excise tax on bonded whisky after eight years' storage whether or not it is about to be withdrawn from storage for sale.

* * *

Schenley is about the real target for this law since its stocks of aging whisky are very large. The present proposal is that the storage period be extended to 20 years to ease the demands on distiller's cash made by the present period. There isn't much more reason to expect favorable action this year than there was in previous, unsuccessful attempts unless the general demand for tax relief to help ease the recession turns more specifically to the excise levies.

* * *

The demand generally for containers has held up well, buoying some of the issues involved importantly. Thatcher Glass, a major factor in the milk bottle field, was able to show a good improvement in earnings in the first quarter, making it popular as an anti-recession item. The market action has been highly restrained, the issue finally breaking out of a range of a mere half dozen points this week to join other issues posting new highs. Its above-5% return is also above-average. It all adds up to good expectations for record results this year despite the sagging economy elsewhere.

Foods Continue Favored

Food shares continued in good demand, particularly the more stable lines. Among the baking issues, Continental Baking was something of a candidate for a higher dividend since last year's payout was covered more than twice over by earnings, a situation that also prevailed the year before. It offered a return of more than 5½% at recent prices despite the favorable indications.

* * *

Continental turned something of a corner late last year when the frozen food business, into which it had entered in 1955 for diversification, finally stopped contributing only red ink to the parent company. The frozen food business was embroiled in a bitter, competitive battle for two years but in the final quarter the Morton division was finally able to turn in a profit to Continental and prospects are that this situation will also prevail this year.

* * *

Aircraft issues are also among those where there is agreement that satisfactory profits will continue for some time. But most issues in the group are well depressed, still not recovered from the effects of the stretch-outs ordained by the government last year. Bendix Aviation which has covered its dividend twice over for three years sold well above 60 in 1956 and 1957 but lately has been available below 50 where its yield has been above 5%.

[The items 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.]

Securities Salesman's Corner

By JOHN DUTTON

Study Your Market

In every well organized sales department of every industrial or manufacturing organization, market studies are carefully undertaken and the results are the basis for the sales objectives and methods for obtaining consumer acceptance of the product. This technique has become standard policy in all successful merchandising operations conducted by large organizations engaged in offering both intangible, and tangible services, and products. This same procedure will uncover substantial prospects for investment securities if it is followed carefully. Here are some areas of prospecting that should be investigated by organizations engaged in the retailing of general market securities.

Every insurance company which has its headquarters in your state has been registered with your state insurance commissioner. The list of home offices is available through him. Write for the statements of all these companies after you have procured this list. Study them for possible clues to their investment capacity, and the type of securities they buy.

All state banks are registered with your state commissioner of banking. National banks with the Comptroller of the Currency. Lists are obtainable from them. Study their portfolios and select those institutions that are buying bonds. Bonds have come back into favor with the banks as business loans have declined.

Check all bank directors and assign them to your sales organization. Also, directors of savings and loan associations. These men are often substantial investors. When you compile this list you will be surprised at the number of individuals who are known to members of your organization, or to your partners. This can open doors for your representatives.

"Always New Opportunities"

Check up the estates that are of long standing in your community, follow probate court records, and establish friendly relationships with the trust departments of your leading banks, your top law firms, and those engaged in practicing tax accounting. See that these contacts are made and where possible continued until business is obtained. Some of these efforts will fail because there are continuing relations of long standing between investment firms and these individuals who control business. But there are always new opportunities and a careful and complete canvass of these very lucrative prospects can be rewarding. The trouble with many salesmen is that they give up before they try. If you have a superior service, or some very worthwhile securities to offer, the door is often ready to open for you. But you must expose yourself to business if you want to develop some of these accounts.

Make someone responsible for checking the daily papers. Sales of real estate are often one source of good investment prospects. I can also attest to the quality of leads you will obtain if you follow the larger sales of real estate and contact the salesman who made the trade. Often these successful real estate men diversify their investments by acquiring common stocks, bonds, and mutual funds. Watch for the man who made the sale, he often has a substantial commission check to invest.

Follow-Up Leads

Keep up with your advertising, see that your leads are followed. In my office we invested a considerable amount in a rather large advertisement six months ago. It produced some small accounts that paid for the advertising but one account came to life about six months later that, if developed properly, will pay for that expenditure many times over. All effort in the right direction is cumulative and it is chain developing. You meet John Doe and through him you do business with Joe Doe, who introduces you to Pete Smith. Direction of effort into the channels that will produce volume is the smart way to increase your production. A sound and careful analysis of your market will help you to make the contacts that will produce more business.

Investment Community's Responsibility

When you hear the statement that we are going to have a great bull market in the next few years because of the inflationary forces which are being built up in our economy this may be so. I don't know. But if it is true; if a $300 billion debt is going to be the cause of some extra prosperity for stock buyers, stock salesmen, and all of us in the investment business, I for one do not feel happy about it. Better we should have a sound prosperity based upon confidence in the future ability of our people to create more real wealth than in a flight from the dollar and all the attendant future travail that such a course portends. We in the investment business should exert our voices and our efforts to help forestall the trend toward such a disastrous future for all of us.

A few years of wild speculation, with stocks selling at 20, 30 and 40 times earnings, and the averages up to six or eight hundred on the Dow is nonsensical. Good securities should offer a fair yield of from 5 to 6%, and the tax burden should be reduced. This is the road to prosperity, **not wild speculative stock markets built upon the fear of a debased currency.**

From Washington Ahead of the News

By CARLISLE BARGERON

The relations of President Eisenhower with the press have been increasingly under discussion of late. Recently Mr. Eisenhower was asked at one of his periodical conferences what he thought of them. With a surprising look of candor he said he thought they were wonderful institutions in this country and that he enjoyed them.

Carlisle Bargeron

I doubt seriously that he meant what he said. In the first place these conferences have been deteriorating for years and they seem now to about reached their lowest depth. It is this correspondent's opinion that the fault is with the newspapermen. Their question have downgraded to mostly inanities and furthermore the correspondents, apparently lost for some worthwhile question to ask, have repeatedly dropped into the field of personalities.

One reason, of course, is the number of correspondents added to the Washington scene. More than 200 attend his every conference. They have become so large that they have to be held in the old State Department building. A White House fault is that the conferences are televised. The result is that every youngster just coming to Washington wants to be seen at a conference and wants to be heard asking a question. The transcript of the conference is frequently carried in the newspapers and the correspondent asking the question is named. Like a meeting of parent teachers everybody wants to say something.

In the first place it is a disservice to the President to print these transcripts. They show the President at his worst. His sentences are unfinished. He rambles all over the place as any man talking extemporaneously usually does. The fact is his transcripts show up in such a manner that his expressions have become the brunt of jokes. Parodies on them are being circulated. One was put into the Congressional Record several weeks ago.

If Mr. Eisenhower really enjoys these experiences he has a better sense of humor than I think he has. Yet when he shows irritation at a personal or antagonizing question, the correspondents then write that his health is failing and that he is likely to give up his office soon and turn it over to Vice-President Nixon.

The fact is that most of the horde of correspondents who now attend his conferences are more concerned in how he looks and how he acts. Very seldom is any question asked that is likely to bring out anything new. They usually concern subjects on which he has frequently expressed himself. An example, the frequently asked question of whether he really intends to fight for his Pentagon reorganization bill. He insists every time that he is. This in the present day babel of Washington is supposed to be significant in that it is supposed to mean that he intends to assert his leadership. Since the days when Roosevelt the Great would send a Supreme Court packing bill to Congress or a proposed declaration of war I have had difficulty in understanding just what is meant by strong Presidential leadership which so many of our editors have been urging upon Mr. Eisenhower for so long. An attempted purge of members of Congress could also be classified as strong Presidential leadership. Well, Roosevelt lost both this and the attempt to pack the Supreme Court. The editors' attitude toward Mr. Eisenhower must be that they want a dictatorship which Roosevelt the Great came very near to attaining.

In the intimacy of Washington where the political tongues are nasty, a frequent reference to Mr. Eisenhower these days is that he is ignorant of anything except the military, that he won't read anything except the light Westerns, that he won't read the newspapers, that he insists that everything pertaining to world and domestic affairs be briefed for him. I can understand why the man doesn't read the newspapers if this is the case. I read them thoroughly and very seldom am I informed.

Although it will come as a surprise to most people, Mr. Eisenhower is probably the least popular with the Washington newspapermen in my more than 30 years here. Secretly he thinks they are nuisances and he may be right, but more importantly he has never fraternized with them. Until he came to office correspondents registered in the Congressional Directory were always invited to White House receptions for the diplomats, the justices of the Supreme Court, members of Congress and so forth. The President always attended about five dinners which the correspondents give annually: the Gridiron, White House Correspondents, the White House Photographers, the Radio-TV correspondents and the National Press Club. It was quite a chore. But Mr. Eisenhower, understandably, has cut out all of these dinners. He feels that if he can't go to them all, he shouldn't go to any. The President's appearance frankly makes the dinners a success.

As to why the correspondents are not now sandwiched in with other guests at the diplomatic and judicial dinners, I don't know.

Mr. Roosevelt inaugurated the practice of giving a special reception for the newspapermen. He would also have individuals at his dinners. Yet he was the most snobbish man I have ever known. Members of the family would laugh at the discomfort of a young newspaperman's wife who appeared in her newly bought but plain dress. Mr. Truman was the most friendly. He was on a plane with most of them.

Glore, Forgan Adds

(Special to The Financial Chronicle)

William G. Maas has been added to the staff of Glore, Forgan & Co., 40 Wall Street, New York City, members of the New York Stock Exchange.

With Delafield & Delafield

John D. Manuso has become associated with Delafield & Delafield, 14 Wall Street, New York City, members of the New York Stock Exchange.

Joins Courts Staff

(Special to The Financial Chronicle)

Arthur Lipper, 3rd, has become associated with Courts & Co., 25 Broad Street, New York City, as registered representative.

City of Oslo, Norway Registers Bonds With SEC for Public Offer

The City of Oslo (Kingdom of Norway) on May 6 filed with the Securities and Exchange Commission a registration statement relating to a proposed public offering of $11,000,000 principal amount of the municipality's bonds, consisting of $8,000,000 sinking fund external loan bonds due 1973 and $3,000,000 serial external loan bonds maturing 1960, 1961 and 1962. Interest and principal of the bonds will be payable in U. S. dollars. The offering will be made on or about May 28 by an underwriting group headed by Kuhn, Loeb & Co.; Harriman Ripley & Co., Inc.; Lazard Freres & Co., and Smith, Barney & Co.

The offering, the first in this country by a Norwegian municipality since World War II, will be Oslo's first dollar bond issue since its 19-year 4½% external loan bonds due 1955 were sold in March, 1936. This issue has been retired. The bonds will be direct, unconditional and general obligations of the City of Oslo, which is the capital and largest city of Norway and the country's economic, financial and shipping center.

Annual sinking fund payments, commencing in 1963, on the bonds due 1973 will retire 100% of the sinking fund bonds by maturity. These bonds will also be optionally redeemable on and after June 1, 1968.

Net proceeds to be received by the City of Oslo from the sale of the bonds will, in the first instance, be added to the foreign exchange reserves of the Kingdom of Norway and the Norwegian kroner equivalent of the proceeds will be transferred to the city. The city will advance the funds to the Oslo Electricity Works to be used to finance in part completion of the Hemsil Hydro-Electric Power Development Project which is designed to provide the City of Oslo with an additional 152,000 kilowatts of installed power by the end of 1960. Oslo Electricity Works supplies the city with all its electricity requirements.

Application will be made to list the sinking fund bonds on the New York Stock Exchange.

Phila. Inv. Ass'n to Hold Annual Outing

PHILADELPHIA, Pa.—The Investment Association of Philadelphia will hold its second annual outing on Friday, May 23, at the Philadelphia Cricket Club, Flourtown, Pa.

The day's events will include golf, tennis and dinner. The arrangements committee consists of Henry Ingersoll, Chairman, Smith, Barney & Co. and Norman Wilde, Janney, Dulles & Battles, Inc.

Wesley Welsh of Robt. Glendinning & Co. is in charge of golf and Robert Arnold of First Boston Corporation is in charge of tennis.

First Sierra Adds

(Special to The Financial Chronicle)

SAN FRANCISCO, Calif. — Ernest C. Ayala, Jay F. Hale, Donald H. Kenney, James D. Robb, David R. St. Johnson and Carl H. Triplett are now with First Sierra Corporation, 98 Post Street.

Edwards & Hanley Branch

Edwards & Hanly have opened a branch office at 25 Broad Street, New York City, under the direction of Gordon Evans.

The Great Delusions

By CHARLES M. WHITE*

Chairman, Republic Steel Corporation

Republic Steel Chairman describes principal delusions harmfully prevalent in the United States and terms "the concept of the Great American Destiny" the most dangerous delusion of all. The belief that Americans cannot fail just because they are Americans, Mr. White contends, has set us back in our scientific race with Russia. The Chairman lashes out against the concept of: (1) getting something for nothing from government spending; (2) the machine as labor's enemy; (3) laboring man is maltreated by management; and (4) unions are weak and must be protected. Comments on views held regarding profits, productivity, and bigness in business. Urges we need to fight our delusions as well as work hard in order to win out against recession and cold war.

Normally, I would discuss some of the technological problems of the steel industry, or about business conditions and the outlook for the future. But there is a subject that has been very much on my mind in recent months, a problem that may be responsible for much of the confusion in the economy today. I refer to the gross misconceptions about business, labor and government which are accepted and believed by large numbers of the people in our country.


Charles M. White

I have always been puzzled—and I am sure you have been, too—by some of the strange ideas people acquire about business, but until recent years I considered them only a minor annoyance. But I was wrong. This country is **built** on ideas, and it can be **hurt**—badly hurt—by ideas.

We can only marvel at the creative power in the concepts of "liberty," "equality" and "free enterprise." We can only regret the destruction let loose in the world by the idea that "might makes right." If we were wise enough, we could measure the future of our nation by evaluating the sanity of our ideas.

Ideas can be wrong because of a lack of information, or because of wrong premises. Ideas can be distorted by emotion or prejudice. But when a mistaken idea is held in the face of all evidence, defended against all argument, and acted upon blindly and without thought of consequence, it can only be labeled a delusion.

Let's look at some of these delusions, and as I hold them up one by one I would like you to remember that, although I know they are wrong and you know they are wrong, many people in this country believe them wholeheartedly. I would like you to think of their effect on our laws, on our courts, on our labor-management relations, on the attitude of the public toward business and businessmen. There is a appalling number to choose from, but I will select only a few in each field.

Field of Business

In the field of business, probably the most common delusion is that "bigness" is synonymous with "badness." Growing out of the old concept of monopoly and restraint of trade, this emotional condemnation of big business completely overlooks the fact that modern corporate enterprise has been our greatest weapon of national defense, and the prime mover in our climb to the world's highest standard of living. We should remember, too, that many enterprises can be efficient and successful **only** if they are big.

The second delusion is that corporate profits are "bad" in direct ratio to their size. Those who hold this idea are unaware that profit is money for growth; that without profit, growth and improvement would cease; that the only alternative to the profit system is a system of state socialism, either communism or fascism. They do not understand the importance of capital formation, and see no relationship between corporate profits and jobs, or between corporate profits and the continued rise in the standard of living.

Linked to this delusion about profits is one about prices. Many people are convinced that as long as a company is making a profit it should continue to grant wage increases without correspondingly increasing the price of its product. The error lies in the failure to see that a company must maintain a price structure that will give it **adequate** profits, otherwise its growth will stop and it will eventually die.

Included in the general field of business is a special set of delusions about equity finance. The semi-literate critic of business abhors profits and retained earnings, yet when a company finances expansion or improvement by the sale of stock this same critic decries the payment of dividends to stockholders. In the popular mind the stockholder is a rich man or woman who inherited the moneybags. Rarely does the critic stop to think that **all** capital is earned, and that he, himself, is free to become a stockholder through his own thrift and ingenuity.

Concept of Profits

A second version of this basic delusion is that dividends are unearned, as opposed to wages that are earned. Not realizing that labor and savings are both forms of capital, the person who holds this idea is blind to the fact that one who invests savings is entitled to a fair dividend, just as one who invests labor is entitled to a fair wage.

The emotional impact in this delusion, as far as the worker is concerned, comes from the conclusion that dividends are money withheld from his pay envelope. He refuses to see that without the incentive of dividends there would be little saving; that without savings there would be no investment, and that without investments there would be no industry, few jobs, and a primitive standard of living.

In the general field of labor, probably the most insidious delusion is that all of the credit for productivity increases should go to the laboring man. Not knowing the function of either management or technology, it appears to many critics of business that "the man who does the work should get the credit." These critics do not see the millions of dollars poured into research, the billions poured into improved machines and processes, the millions of manhours of management time devoted to long range planning and day-to-day supervision. Yet these are the factors that are mainly responsible for increases in productivity.

Labor's Treatment By Management

Another popular delusion about the laboring man pictures him as poor, overworked and uncared-for by management. Many people are surprised to learn that the workman's wages are likely to be equal to the professional man's salary; that the blue collar workman's factory is often as pleasant a place to work as the white collar man's office, and that blue collar benefits are likely to be equal to those provided for white collar workers.

The popular picture of the laboring man also includes an overtone of oppression by supervision and management in general. This goes back to the early days in this country and in Europe when force and rigid discipline kept the working man in subjection. The democratic atmosphere of the modern factory or mill is virtually unknown to the average layman in spite of all our efforts to communicate.

These delusions about labor naturally spill over into the field of unions. One strange delusion, for example, is that unions are weak and undernourished, and have to be protected by the government. Many people actually believe this in the face of growing proof that unions constitute the most powerful pressure group in the country, and are almost totally unregulated.

Existing side by side with this delusion is the utterly contradictory one fostered by the unions that they, alone, have been responsible for the gains in workmen's earnings and living standards. The person who holds this belief, of course, is blind to the fact that if management had not provided the machines and processes for raising productivity there would have been no money to pay higher wages, and no products to provide an improved standard of living.

Accompanying this delusion is usually the supplementary idea that it is the unions who have brought about the vast improvements in working conditions and safety in modern plants. The fact that these improvements have been the outgrowth of better technology, and a maturing management philosophy is an eye-opener to laymen who take the trouble to find out for themselves.

Machine as an Enemy

When we come to the fields of science and technology we find some delusions that are particularly dangerous. New theories, new machines and new processes are objects of dark suspicion to many segments of labor and the general public. Some of the suspicion is purely mystical, a part of the ignorant man's suspicion of the unknown. But in the field of industrial technology, much of the distrust is a residue of the Industrial Revolution. The delusion, here, is that the machine is the enemy of the working man. This idea is so firmly rooted that even a small amount of technological unemployment is enough to rouse deep resentment and uneasiness. It will take a long and costly educational program to convince labor that the machine is the giver of more and better products for a better, more leisurely life.

Even when the role of new technology is understood in engineering terms ,a number of people—including perhaps a majority of union people—believe that management uses new machines and processes to exploit the worker. The role of automation, for example, as a creator of jobs and an upgrader of earning power is little understood.

Tying in here again is the idea that the proceeds from increased productivity, gained through improved technology, should go to the workers. It is rarely understood that the gain from productivity increases should not go to wages alone, but should be divided among wages, prices and profits, so that workers, consumers and investors will get their fair share.

When problems arise between labor and management, they should be worked out in the true spirit of free collective bargaining. On the one hand should be labor leaders elected by secret ballot of union members at regular elections. On the other hand should be management representatives working without the constant threat of government takeover such as we have had in the two previous Democratic Administrations. A strike should be resorted to only when the entire working force has voted for it, under a properly supervised secret ballot. The achievement of this balance in collective bargaining, incidentally, would go a long way toward controlling inflation.

The workmen of this country are solid, sound, clear thinking men and women, and under the proper conditions and safeguards will vote for their best interests, and the best interests of the country.

"Something-for-Nothing"

The last set of delusions I want to cover lies in the field of government. The first is the concept of "something-for-nothing" which many people have hooked to government spending. The delusion "if it comes from the government it's free" is a constant threat to the solvency of the nation.

The second is the concept of paternalism. "Uncle" Sam should be "Papa" Sam to these people who would shift all responsibility from the community to the state, and from the state to the Federal Government. Our strength is based on a concept of government which gives to each man, each family, each community, each county, each state **and** to the Federal Government a set of responsibilities and a set of privileges. These responsibilities must be carried out, these privileges must be protected if we are to remain strong and free.

Great American Destiny

The third—and perhaps the most dangerous delusion of all—is the concept of "The Great American Destiny." This doctrine, which holds that we cannot fail because we are Americans, has brought us to the edge of disaster more than once, and has caused us to lag in our current scientific race with Russia. We must remember that we are a great nation because, basically, we have always known that we get only what we work for—nothing more—and we have been willing to work harder than the competition.

More Than Hard Work

But today, in the face of a recession and a step-up in the intensity of the cold war, we must remember that we are up against the stiffest competition we have ever faced, **and hard work alone may not be enough.** We are going to need the maximum in wisdom and clear thinking to achieve the maximum in efficiency. This means that we are going to have to **fight** against the delusions that confuse and blind us, that turn us against each other.

There is nothing new about this. It is a continuing fight—one that must be won over and over again. George Washington once said, commenting on his experiences in the Presidency:

"I am sure the mass of Citizens in these United States mean well, and I firmly believe they will always act well whenever they can obtain a right understanding of matters. But in some parts of the Union it is not easy to accomplish this—especially when the inventors of pernicious measures use infinitely more industry in disseminating the poison, than the well disposed part of the community to furnish an antidote."

That puts it squarely up to us. We can't furnish all the antidote needed, but we can do our part. In our daily work, in our conversations with our friends, in the talks we make, the papers we write, the conferences we attend, we can speak up for good business, good government and good labor relations. I know it is a job worth doing—and it may prove to be the most important job of all.

*An address by Mr. White before 41st Conference National Open Hearth Steel Committee and Blast Furnace, Coke Oven, and Raw Materials Committee, Cleveland, Ohio, April 15, 1958.

Buttenwieser Dir. of Tishman Realty Co.

Benjamin J. Buttenwieser, a limited partner in Kuhn, Loeb & Co., investment bankers, has been elected a Director of Tishman Realty & Construction Co. Inc.


Benj. J. Buttenwieser

Mr. Buttenwieser, who has been with Kuhn, Loeb since 1918, is a member of the Advisory Committee of the Title Guarantee & Trust Company of New York. He also is a Director of the Benrus Watch Company, the United Artists Theatre Circuit, Inc., the Venus Pen & Pencil Corporation the Health Insurance Plan of Greater New York, the Philharmonic Symphony Society of New York and of the Foreign Policy Association.

He is Chairman of the Board of Trustees of Lenox Hill Hospital, a former President and now Trustee of the Federation of Jewish Philanthropies of New York, and member of the administrative and executive committees of the American Jewish Committee. He is also Chairman of the New York State Chamber of Commerce's committee on taxation.

Mr. Buttenwieser's service with Kuhn, Loeb was interrupted during World War II, when he served as a Lieutenant Commander in the United States Navy, and from mid-1949 until the end of 1951 when he was United States Assistant High Commissioner for Germany. Mr. Buttenwieser is now a Commander in the United States Naval Reserve (retired).

Blair Opens Branch In New Haven

NEW HAVEN, Conn.—Blair & Co. Incorporated, members of the New York Stock Exchange and other leading security exchanges announced the opening of an office at 70 College Street, which was formerly operated by the investment firm of George C. Lane & Co., Inc.

Arthur O. Samuelson, resident manager; Robert O. Samuelson, L. G. Pease; John J. Dolan and J. E. Dickerman, who formerly conducted the business of George C. Lane & Co., Inc., have joined the Blair organization.

Cosby & Co. Formed

(Special to THE FINANCIAL CHRONICLE)

CLEARWATER, Fla.—Cosby & Co. has been formed with offices at 1985 Drew Street to engage in a securities business. Officers are Pryor E. Cosby, President; M. S. Cosby, Secretary and Treasurer, and Furman J. Baker, Jr., Vice-President.

American Investments And the Common Market

By JAMES A. MOFFETT*
President, Corn Products International

Mr. Moffett deals with unparalleled opportunity ahead for both Europeans and Americans in the European Common Market, and the problems apt to confront U. S. exporters, prospective participants and corporations already represented in the area. Agrees that direct trade at first will be reduced but, under the stimulation of competition and accelerated development of other areas, that in due time it will be increased. Calls for "an intensification of American participation in this great new development."

For anyone to express himself on the broad and exciting subject of the Common Market involves considerable risk, since, at this stage of development, one can only speculate on the speed of attainment, as well as the problems to be overcome. It would probably be difficult to find even two people who could agree on a forecast of when this development will be fully effective and through what trials it will pass.

James A. Moffett

Let me state an American viewpoint of the Common Market, in order to present a basis for decisions as to future actions to be taken by American corporations. Following the American ideal and achievement of economic concentration of effort, the Common Market will develop low-cost productivity. Of greater importance, this will produce a rising standard of living, resulting in an ever increasing platform of local consumption. As this occurs, it will set in motion a spiral of increasing productivity, reduction of costs, and an improved competitive position for export to the balance of the free world.

Paradoxically the greatest asset of the Common Market area is the deficiency of raw materials, which under-developed areas of the world can supply. Thus, we can readily see that not only will the Common Market area gain in productivity, but, by so doing, will have available a large and increasing foreign trade, based not upon subsidized customers, but upon the sound economic footing of the exchange of goods.

Effect Upon U. S. Trade

At this point, let us take a brief look at the possible effect on the trade of the United States with Europe. Recent figures show that approximately 32% of exports to Common Market countries consists of manufactured items, virtually all of which can be produced within the Common Market. Further, since the United States draws a much lower relative increment of raw material supply from the balance of the world, it is reasonably safe to conclude that a higher percentage of American trade in manufactured goods with other areas will face increased competition with the Common Market. We do not think it illogical to draw the conclusion that the Common Market should tend at the outset to reduce not only direct trade with the United States, but also with many other countries. Offhand, this sounds like a pessimistic outlook for American foreign commerce, but, when we consider that demand is virtually unlimited, we can draw a further conclusion that under the stimulation of competition, together with the accelerated development of other areas, trade, as a whole, will be increased. The United States should benefit further by a reduced requirement of supplying customers with the wherewithal for purchases. Economic history has always proved that what is good for any segment of the world's economy proves to be beneficial to the whole.

Considers Specific Problems

Now to turn from generalities, let us consider the specific problems which the Common Market will generate for American businesses exporting to the area. In considering this we do not have to indulge in guess work, as the same forces were at play in the period after both world wars, when there were dramatic surges in European production. The recovery from these two long periods of destruction and non-productive effort proved, in spite of the Balkanization of effort, that the people of the Common Market area were, if not the most, at least equal to the most productive people in the world.

At the conclusion of the reconstruction from World War I, the United States, through a false expansion of its industrial vehicle, due to the emergency, was assisted into the great depression by the recovery of continental production. Since World War II the United States has maintained a large part of its export to the area through governmental devices, such as Marshall Aid and NATO.

As a result of the Common Market development, American business must re-appraise its situation with respect to the future. Regardless of governmental activities, the increase of indigenous production will ultimately eliminate the requirement for manufactured goods from the United States; in fact, we may even be witnessing some of the early signs of a reversed trend in certain areas of the economy. Last week a rather dramatic evidence of this fact was the acceptance of the foreign automobile show by the people here. This item of import trade involves only 2% of U. S. production, but, at this moment, is equal to 11% of the burdensome inventories. Now, when one considers that this import is generated economically by a European automobile industry, living in an economy of bicycles, one can readily recognize that the area is on the move.

A good American saying is — "If you can't lick them, join them." This is not entirely applicable, as we have joined them over the many years since the first war. What is required, in our self-interest, is an intensification of American participation in this great new development.

Establishing a Business

The concept of the Common Market and the schedule of attainment are very interesting. It proposes to lead off with the elimination of trade barriers. From the standpoint of established business, this creates a variety of problems, but, from the standpoint of establishing a business, it produces tremendous difficulties, due to the disparity of the political concepts of the various countries. Let us take, for example, the question of tax: shall we assume that the development of the Common Market will bring about equalization of tax through the area? Because, if so, the choice of location for an American concern is rendered far easier. As you can easily see, this factor presents a most difficult problem and suggests that political integration should be stepped up because of the tremendous effect of taxation on industry. Of course an American corporation, due to the fantasy of U. S. tax law, is, in general, not subject to local taxation, insofar as dividends are concerned. This probably is the only good thing that one could ever say for the taxation of foreign earnings.

Fortunately, transportation throughout the Common Market area is very low cost and, thus, does not create a problem as great as when dealing with factory location in this country.

Another problem that must be met is that of the variance in the laws between countries. As an example, for a food company, the wide descrepancy in food law standards that exist. Unless this factor is reduced to a common denominator, it will impose difficulties, and so retard development.

The Common Market will create a heavy burden for the area through the necessity of accomplishing a great deal of rearrangement of capital assets. This would indicate that any American corporation, contemplating entry to the area, had best act with urgency, in order to take advantage of construction costs before the full thrust of development has taken its effect.

In looking down this avenue of the future, we can see an acceleration of the transfer of ownership and management from the family-type business of the past to the corporate and professional management with which we in this country are so familiar. This is an opportunity which gives an American corporation, entering the field, a tremendous advantage.

Having dealt with some of the problems which confront American exporters and prospective participants in the Common Market area, let's turn for a moment to the problems generated for corporations already represented in the area.

Existing Firms' Plans

In addition to the problems generated by politics, there is the question of re-alignment of production for the future.

In our group we have formed a standing committee within the area, for the purpose of studying and forecasting, not only the possible effects, but also the proposed solutions. In general, at this early stage, we are thinking in terms of controlling expenditures for capital assets, in such a fashion that we will not forego present actualities, while, at the same time, placing ourselves in a position to take advantage of future opportunities.

Considerable thought and study is being given to the history of the development of productivity over the years in the United States and, by the lessons of the past, we hope to avoid mistakes as the Common Market takes on the aspects of the American free market. Our thinking runs more in terms of concentration, country by country, in phases of productivity, thus paving the way to take advantage of reduced costs in the several units through specialization.

To enumerate further possibilities:

The centralization of figure production, which will make possible the utilization of electronic methods.

Finally, we are stepping up the interchange of information between various units, in order to pave the way for the ultimate necessity of dealing in one market.

By this bold stroke of the Common Market, we will, without question, witness the opening of a flood gate of prosperity through industrial development, and an opportunity, unparalleled in the history of the world, to profit by applying the techniques and know-how which we, in this country, have been fortunate enough to develop, with the great assistance of 48 state-borders without tariff or restriction.

A Design for Utopia

Probably most important of all, is the effect which the Common Market will have on the peace of the world. Up to now, peace has depended more on the balance of power than on the sound footing of individual welfare. The disproportionate individual wealth of the people of the United States has presented a continual opportunity for communism and other ideologies to point at this fact and take advantage of the people in other areas who have less. With Europe generating, at an ever quicker pace, an economy parallel to the United States, we will have two great areas of economic well-being. From this will result benefit for the backward areas. Eventually the totalitarian communist states, not being able to point to one wealthy area and many less well off, will be forced, through public demand on the part of their people, to permit a rising standard, through peaceful production.

Although this sounds like a design for Utopia, and cognizant of the fact that a great deal remains to be done, it must be certain that this is the approach, which, having generated such benefits in this hemisphere, is the design from which the rest of the world can benefit. The Common Market of Europe will be the test and prove up of what has happened here. American business has long advocated such a step without calling it by name. Now Europeans have found the name and set down the method. It is the duty of American management to its owners to join in this great opportunity.

*An address by Mr. Moffett before Belgian Chamber of Commerce, New York City, April 15, 1958.

Tucker Anthony Day Elmer Bright to Merge

BOSTON, Mass. — The investment firms of Tucker, Anthony & R. L. Day and Elmer H. Bright & Co. have announced their intention to combine under the name of Tucker, Anthony & R. L. Day. The move is expected to take place late in May with Boston headquarters of the expanded firm at 74 State Street.

In addition to offices in Boston and New York, Tucker, Anthony & R. L. Day will continue its offices in Rochester, N. Y.; Hartford, Conn.; Manchester and Nashua, N. H.; and Springfield and New Bedford, Mass. In addition, the present offices of Elmer H. Bright & Co. in Haverhill, Mass., and Providence, R. I., will be retained under the new name.

Tucker, Anthony & R. L. Day have been in business since 1892 and Elmer H. Bright & Co. was established in Boston in 1904.

Financing Industrial Enterprise In Latin American Countries

By CHARLES W. B. WARDELL, JR.*
President, The Deltic Corporation, New York City

What is involved in capital financing below the Rio Grande, with special reference to Brazil, is spelled out by Mr. Wardell in describing his firm's participation in underwriting and marketing Brazilian securities. Deltec's head believes public distribution of worthy securities is the preferable answer to capital shortage plight in Latin America.

The question of the financing of industrial enterprises in Latin America involves ultimately the financial support available in these respective capital markets. Other sources of capital are essential to the development of the Latin American business community; particularly important are the direct investments of American and European manufacturers, but it is the savings of the local indirect investor on which the growth of these economies finally depends.

The intense demands for capital in these countries reflect the exaggerated rate of growth of their respective economic communities, communities that have been going through a forced draft expansion of industrial production, public and private construction with corresponding increases in consumer purchasing power and consumption, with a continuing expansion of active markets for local products; these factors combined with a steady growth in agricultural output, in the service industries, and greater than average population increases, have produced perhaps the world's fastest developing economies.

Since these countries (with Argentina a partial exception) had no capital markets of a size capable of supporting these new developments, they have been forced to look to foreign sources for financial nourishment, with only very restricted help available at home. Largely for reasons inherent in this very growth, capital from abroad has been limited and insufficient to meet basic requirements. The causes for this are understandable, yet all too often not given proper consideration in relation to the problem. Inevitably in a society changing from a raw materials/agricultural to a combination industrial/agricultural economy, growing pain stresses are produced. Internal inflation is invariably experienced, the currency tends to depreciate against the world's more stable currencies, a spirit of nationalism comes sharply into evidence, and a political instability is often noted while the nation adjusts to new conditions, meets new problems, and turns in new directions for answers. Foreign bankers note this and become reluctant dragons for financial adventures at risk under these conditions. Friendly governments are somewhat more disposed to assist with loans on the government level, but such financing help can never prove adequate to the needs. Hence, these peoples must look in the last analysis to their own capital resources.

Traditional Capital Sources

Traditionally there have been four sources of those limited funds available to which Latin American business enterprises have turned.

The first source is the family groups, usually an alliance of two or three rich, influential families whose activities include banking, industry, land development, and commerce. These family groups in the past have been able to finance their capital expansion programs from their own resources and the assistance they command from governmental and other special connections. Although this is probably still the most important source of development capital, it has become woefully inadequate, not only for the financing of the large capital goods projects in progress and in prospect, but also for the expansion of established companies to meet competition and market demands.

A second means of providing development capital has been the reinvestment of earnings. This is slow and limited by the tradition of large cash dividend payments to the shareholders. A later and further deterrent has been the increasing tax rates which have become important considerations.

A third source of funds has been forced loans by means of local governmental development agencies. These "Fomentos" or equivalents, such as in Brazil's case the Bank of Economic Development, have been loaning increasingly large sums to private enterprise; their futures are at the mercy of the respective administrations and their capital resources have definite limitations. At best, this support will be insignificant in terms of the needs of private enterprise in the respective countries.

The fourth source of capital and the particular area of Deltec's activity is the investment banker in the public capital market.

In dealing with investment banking in Latin America I want to discuss Brazil, both because we know that country best and have been most active there, and because it has the characteristics encountered in the other important countries leaving Venezuela aside. It is also possibly the most important with the highest rate of industrialization, and hence the classic financial difficulties.

Investment Banking in Brazil

The investment banking business in Brazil has developed since the war into a recognized adjunct of the business community. It has been largely a pioneering effort to educate the potential Brazilian security buyer in the most elemental sense to understand and accept the purchase of shares of a company as a relatively safe and potentially profitable venture.

Too long, savings have been channeled to real estate investments, many of an illiquid and unproductive nature. Also, indirect investments in shares of companies were equated many times in the public mind with losses, owing on the one hand to the failure of many corporations to keep profits and dividends adequate to counteract the ravages of inflation, and on the other to the lack of marketability or liquidity of the investment once made. Unfortunately there has also been a history of fly-by-night schemes leading to the enrichment of promoters and losses to investors, and unhappily this is not unheard of today. Finally the few sophisticated investors were reluctant to buy shares in publicly-owned companies because of the fact that regular and accurate information about the companies' operations was usually hidden from public view; sometimes to the advantage of the management and directors.

To overcome these difficulties is a formidable task. The first necessity has been the education aspect, which has involved careful explanation of securities, their differences, voting rights, dividends, earnings, options, regular income; in fact, everything that is commonly taken for granted in Wall Street. Once a particular investment is understood through the efforts of individual salesmen, publicity in the press, together with group meetings with members of the firm, endorsements by officials and leading citizens, many times it has been found that appeals to national pride are not amiss to promote the sale of a particular security: for example, that Brazil may have an automobile industry; and at times to more selfish interest: that the investor might have more electric power and hence the use of a new household appliance. Parenthetically this matter of enlightened self-interest is being demonstrated today by certain Brazilian companies, some of them publicly owned, that are participating in the capitalization of a new and badly needed steel plant.

The other side of this coin in the development of an effective capital market is obviously the protection and safeguarding of the public investors' interest, once a company's shares have gone to market and public ownership is established in a greater or lesser degree. Only then can a growing number of satisfied investors come into being and establish a basis for an investment banking business and a capital market. I want to emphasize that this aspect, so well understood in the States and invariably accepted by American companies, involves conditions unpalatable to many Latin American businessmen and contrary to years of tradition and common practice.

Conditions Imposed

Accordingly, it has found that in order to underwrite or handle a public issue of shares for a company in Brazil, we must insist on the following conditions:

(1) An audit of the company's books by an independent accounting firm which is satisfactory to Deltec before entering into any firm commitment;

(2) A survey of the insurance coverage of the company;

(3) A study and inevitably a revision in the by-laws of the company to establish the terms of the security to be created. (Ordinarily, and particularly today, the security is common stock or a fully participating preferred with the following characteristics:

(a) protection as to voting rights;

(b) in the case of a preferred, establishment of a dividend as a percentage of par value to be paid if earned;

(c) equal participation with the common once the common has received a dividend equal to the preferred;

(d) provision for payment of dividends in two or more instalments a year at places accessible to the stockholders).

(4) Underwriting terms and dates for payment of the capital subscriptions will be agreed upon in each case to suit the circumstances of the issue and the market conditions;

(5) The issue will be registered on the stock exchanges of Rio and Sao Paulo;

(6) A prospectus in the nature of those required in the United States is prepared by Deltec in collaboration with the company, together with public advertisements in the newspapers, to be available by the date of issue of the security;

(7) Agreement by a majority of the stockholders to elect one or more directors to represent the publicly-owned stock, together with at least one member of the Fiscal Council, a sort of separate finance and auditing committee;

(8) The retention of independent public accountants to audit the company's books annually and perhaps more often;

(9) To foster good stockholder relations, the company must agree to:

(a) provide monthly information about operations to Deltec;

(b) issue semi-annual reports to stockholders;

(c) transfer shares without expense except taxes to shareholders;

(d) arrange the payment of dividends in the localities where substantial amounts of the issue have been placed, and provide a schedule of regular dividend dates with prior public announcements of such payments;

(10) The expenses arising from these specifications are to be borne by the company.

Once these conditions are established in the interset of the public stockholders, Deltec arranges and conducts trading markets in those securities Deltec issues and sells publicly, along with its usual trading activity in the principal securities listed and traded on the stock exchanges in Brazil. This provides the purchaser an opportunity to sell his shares at a fair price for at least an extended period after the purchase was made. This liquidity of course gives the public investor greater confidence in his investment and enlarges the market for the issues distributed.

Deltec's Contribution

Modest progress has been made in the past eight years, and I must add, Deltec is not alone in the securities business in Brazil; but it has emphasized this underwriting and public sale aspect of the business, and handled the lion's share of it as a result. Deltec has placed approximately Cr.$3 billion, the equivalent of US.$50 million, worth of securities with the public. Each year the amount has increased, with last year's value in excess of Cr.$300 million, the equivalent of US.$3.5 million, including the largest single underwriting and public sale ever undertaken in Brazil. This year notwithstanding certain disconcerting aspects of the Brazilian economy, Deltec will exceed the amount of capital publicly raised last year.

For the companies who have retained Deltec's services there have been, we believe, great advantages. In addition to the capital contribution sometimes unavailable from any other source at a reasonable cost, or any cost for that matter, these firms by becoming identified with Brazilian interests have a kind of insurance policy for equitable treatment. Incidents have occurred where this national identity has saved time, money, and governmental red tape. This can be particularly important in the sensitive areas of judicial proceedings, procurement of licenses, taxes, customs duties, exchange availability, and it can have important effects on a company's relations with the local press and the whole field of public relations. The marketing implications of this public ownership for the company include a better recognition of its products, and hence improved competitive position.

Another important factor is the advantage public ownership establishes for additional capital that might be required at a later date. Additional shares of an existing issue, or a different class of security for a successful company, gain quicker public acceptance and are easier to distribute than the first issue taken to market.

It is also worth noting that loans in foreign currencies are sometimes conditioned on the raising of local counterpart funds, which is only feasible at times by some form of public sale of shares.

May I say finally from our experience, from the economic conditions encountered in the Latin American countries, and from the evident advantages that have accrued to the companies with which we have been associated in raising public capital, we believe public distribution of worthy securities is the logical and appropriate answer to the shortage of capital presently existing in these markets.

*An address by Mr. Wardell before the International Management Conference.

Halsey, Stuart Group Offers Virginian Ry. 4% Bonds at Par

Halsey, Stuart & Co. Inc. and associates on May 2 offered $12,000,000 of Virginian Ry. Co. first lien and refunding mortgage bonds, series F, 4%, due May 1, 1983, at 100% and accrued interest. Award of the bonds was won by the group at competitive sale on May 1 on a bid of 99.277%.

No proceeds from the sale of the bonds will be used by the Virginian Ry. Co. for the payment of a short-term bank loan due June 11, 1958, and to replenish the company's treasury in order to provide funds, which together with other treasury funds, will be used for capital expenditures, to increase working capital and for other corporate purposes.

The series F bonds will be redeemable at optional redemption prices ranging from 104% to par, and for the sinking fund at 100%, plus accrued interest in each case.

The Virginian Ry. Co., operates a total of 1,089.36 miles of track located in the states of Virginia and West Virginia. The principal business of the company is the transportation of bituminous coal produced in the coal fields of southern West Virginia. Bituminous coal tonnage originating along the lines of the company average during the past 10 years about 90% of total bituminous coal handled by the railway.

Bank of Calif. Woman Gets Nat'l Appointment

One of the highest honors of the American Institute of Banking was bestowed on Mrs. Theresa Elliott, Supervisor, Customer Relations Department, The Bank of California, San Francisco, with announcement of her appointment as Chairman of the National Women's Committee for a one-year term. A.I.B. membership now numbers 131,000.

Her duties will involve coordinating the activities of the Women's Committees throughout the nation and disseminating current information to the national members in the country's 12 districts. Emphasis is centered on A.I.B.'s educational program, making available courses with which women may prepare for better positions.

Prior to her present appointment, Mrs. Elliott had served as National Committee Member for District 8 (Northern California, Nevada and Utah) and as Chairman for the San Francisco Chapter of the Women's Committee. She has been a member of A.I.B. since 1951.

This is the second time that a Bank of California woman has received national distinction in the American Institute of Banking. Miss Elizabeth Lory of the Bank's Portland Office was appointed Women's National Chairman in 1956.

With Straus, Blosser

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill.—Costantine Page is now with Straus, Blosser & McDowell, 39 South La Salle Street, members of the New York and Midwest Stock Exchanges.

LETTER TO THE EDITOR:

Reader Would Limit Credit to Savings to Avert Cyclical Instability

Mr. Shamer's commentary on *Chronicle* editorial "As We See It," is to advance Prof. Ludwig von Mises' explanation of the business cycle which, in a word, would limit credit to savings and not allow fractional reserves. Writer advocates government get completely out of the banking business and restrict itself to coining of money, or issuing of gold certificates; that notes issued by banks be exclusively their own liability; and currency not be elastic.

Editor, Commercial and Financial Chronicle:

In the March 20, 1958, edition (No. 5726) of the "Chronicle," you say in a very sound editorial [As We See It], "The cost of essential adjustments made in response to such conditions was admittedly high, and, if a better way could be found for inducing them, or **if someone could devise a workable system for preventing the rise of conditions which made them necessary,** so much the better, but meanwhile the adjustment could not be neglected if depressions were to be brought to an end and real progress resumed."

Blames Bank Credit Expansion

My comment concerns the bold face words. I wonder why you are not willing to accept the explanation of the business cycle so cogently presented by Prof. Ludwig von Mises in his "Theory of Money and Credit" and his "Human Action," to the effect that all booms are due to the expansion of money and credit, and the depressions are the consequences of the maladjustments and overconsumption of the boom period.

Where there is no expansion of money and credit [newly created purchasing power based on instruments of debt] the only loans possible are those resulting from somebody's savings. When a person saves he refrains from spending, and an equal value in goods is not consumed. When the savings are invested, the entrepreneur gets command of an equal value in goods, but there is no **additional** demand for goods. While the goods put to productive use by the entrepreneur will probably be different from those saved by the investor, there is no **general** increase in prices (or wages), but only an adjustment between prices of different commodities — an adjustment that would never be great, and probably there would be no adjustment at all, if the saving is not abnormal.

These remarks point to the solution. If credit be limited to savings, no boom is possible—only a steady rise in the standard of living as savings, capital investment and efficiency increase. Wages would increase as marginal productivity increased, and prices would also tend to fall, providing that the savings increased faster than the population. Under these conditions the entrepreneur would have one less factor to consider in his planning for the future—that is, there would be no inflation to complicate his estimates.

This leads to the cause of our current misery. Banking has always been a government [Federal and State] controlled institution from the beginnings of our Republic. The government authorized the banks to issue notes and create deposits on the basis of instruments of credit, and thus to expand the currency. It is easy to see why this was popular. People would never have trusted such banks, however, if it had not been for the government charters and the banking laws and regulations which were supposed to make these banks safe. So, repeatedly, we expanded the media of exchange [inflated] got into trouble, and experienced the crisis. For no government can do the impossible; that is, apply more goods to investment and consumption than actually exists. Goods and labor are limited in quantity, and all that can be done is to alter their employment—malinvest.

Abjures Credit-Elastic Currency

One of the most conspicuous fallacies very generally accepted in this country is that a **good** currency must be an **elastic** currency. Elasticity has always been the source of our crisis. In 1907 when so much complaint was lodged against our inelastic national bank notes, a great expansion had taken place in demand deposits created out of banking credit operations in excess of savings. The true source of the 1907 banking crisis was overlooked or concealed.

The present state of expansion in our currency cannot be reduced without disastrous consequences. **But we can resolve not to expand any further.** Even during the recent "tight money" period, our bank deposits continued to increase—but at a slower rate. As you have pointed out a depression and readjustment must certainly occur, and is unavoidable, if we are to return to a sound basis for future operations. Our Federal Reserve Board **could** accomplish this under its present powers, but its members appear to be committed to a belief in a **managed** currency as a sound policy, or are too pliant under political pressure. The Federal Reserve Board is a government institution, and banks of the reserve system are closely controlled, even if they are privately owned. The only safe scheme is for the government to get out of the banking business altogether, and restrict itself to the coining of money, or issuing gold certificates. The notes issued by banks would be exclusively their own liabilities. Under free banking any excesses of the banks would soon be curbed by the lack of public confidence. With such a large volume of Federal Reserve notes outstanding this would require that proper provision be made for their worth as good currency, but no **new** bank currency should have government backing.

As with practically all economic problems (and political, too), the solution lies in personal freedom, with the government restricted to the role of punishing the abusers of liberty.

GEORGE P. SHAMER

1 Josepha Avenue
Parkmerced, San Francisco, Calif.

Edward Herlihy Is Now With Chace, Whiteside

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—Edward Herlihy has become associated with Chace, Whiteside & Winslow, Inc., 24 Federal Street, members of the Boston Stock Exchange. Mr. Herlihy has recently been with Draper, Sears & Co. In the past he conducted his own investment business in Boston.

Joins Nelson Burbank

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass. — Hubert C. Mathews is with Nelson S. Burbank Company, 80 Federal Street.

Albert Harris Honored By Chicago Bankers

Albert W. Harris, 90, former Chairman, President and Director of Harris Trust and Savings Bank, was honored April 29 at a dinner in the Crystal ballroom of the Sheraton-Blackstone hotel by 475 Chicago bankers. Mr. Harris, long known as "the dean of Chicago bankers," was presented with a special resolution at the annual meeting of the Chicago district, Illinois Bankers Association.

Presiding at the dinner was R. O. Byerrum, Chairman of the of the Board and President, University National Bank, and President of Chicago district, Illinois Bankers Association. J. Ross Humphreys, President, Central National Bank, and Vice-President of the district made the presentation.

The resolution presented to Mr. Harris said: "To Albert Wadsworth Harris, whose entire career has been devoted to the financial institution founded by his father, the Harris Trust and Savings Bank, which he served as President and Chairman for 27 years, and whose long and continuing service to his city and nation has earned for him the honored title of 'Dean of Chicago Bankers', Chicago District of the Illinois Bankers Association is pleased to offer this expression of recognition and honor for his many actions of banking leadership during critical periods of war and depression, for his wise counsel in the establishment of adequate banking systems and legislation, for his contribution to the fiscal soundness of the community, for his deep and understanding interest in the city's youth, and for his example of integrity, leadership and respect in the banking profession."

V. Lee Norwood Co. Forming NYSE Firm

V. Lee Norwood & Co., members of the New York Stock Exchange, will be formed as of May 15. Partners are V. Lee Norwood, who will acquire an Exchange membership, and Edwin S. Mullett, general partners, and George E. Paulsen, Clarence P. Browne, L. Eugene Duff, and Robert F. McElheney, limited partners. Mr. Norwood has been with Merrill Lynch, Pierce, Fenner & Smith, in Columbus, Ohio, and Mr. Mullett has been with the firm in Toledo.

Securities Trading Corp. Formed by Abele

NEW MILFORD, N. J.—Securities Trading Corporation has been formed with offices at 312 Jordan Road to engage in a securities business. Officers are Edwin A. Abele, President; Frances Coppola, Vice-President, and Albert Lentz, Secretary and Treasurer. Mr. Abele was formerly manager of the wholesale department for L. D. Sherman & Co.

S. K. Markman Opens

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Simeon K. Markman is engaging in a securities business from offices at 111 North Wabash Avenue.

M. P. Rogers Opens

BROOKLYN, N. Y.—Martin P. Rogers is engaging in a securities business from offices at 90 Bay Ridge Avenue.

With Distributors Group

Brian McFadden has joined the sales development staff of Distributors Group, Inc., 63 Wall Street, New York City, sponsors of Group Securities, Inc.

Commodity Exchange, Inc. Marks 25th Anniversary

At the ceremonies Exchange President Harold A. Rousselot (left) and Jerome Lewine, the Exchange's first President and one of its founders, hold gavel that opened the meeting.

A promise to further increase trading activity in copper, zinc, lead, tin, rubber, hides and burlap highlighted commemorative ceremonies marking the 25th anniversary of Commodity Exchange, Inc. (New York) here, on May 1.

Speaking before a group of members and guests from other commodity exchanges, banks and security markets, including the New York and American Stock Exchanges, Harold A. Rousselot, the Exchange President, noted that activity in copper futures had increased over 400% in the first quarter of 1958 and that it was the "aim of the Exchange to accelerate interest for all contracts now housed in its trading area."

Commodity Exchange was founded in 1933 when the Rubber Exchange, New York Hide Exchange, National Metal Exchange and National Raw Silk Exchange were merged into one. The Exchange became a legal entity just 25 years ago, although formal trading in the futures deliveries of these commodities actually started in the present Exchange's quarters at 81 Broad Street, on July 5, 1933. (Trading in burlap futures was inaugurated in 1953.)

Commodity Exchange, Inc. serves as a means for hedging operations for the dealer, producer, consumer and provides a broader market in commodities traded on a single floor. It affords greater, more efficient facilities for financing of operations, while concentrating the buy and sell orders from all sections of the world in one trading area.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED
CAPITALIZATIONS

The appointment of John T. DePalma as Vice-President in the metropolitan department of the **Chase Manhattan Bank, New York,** was announced May 6 by George Champion, President. Mr. DePalma will be in charge of the bank's branches in Brooklyn.

Joining Bank of Manhattan in 1932, Mr. DePalma was appointed a Branch Manager in 1942, advanced to Assistant Treasurer in 1945 and was promoted to Assistant Vice-President in 1950, continuing in that capacity after the Chase-Manhattan merger in 1955.

Named Assistant Vice-Presidents were Francis X. Kosch, instalment credit department; Edward B. Maybeck, trust department; and Eugene L. Parker, Jr., legal department.

New Assistant Treasurers are Oswald S. Banz, Raymond T. Bogert, William L. Dahl, William M. Doran, Jr., Benjamin W. Hatch, Philip E. Schwendeman, Henry M. E. Thormann, and Edward W. Vlasaty. Charles J. Clune was appointed an investment officer.

* * *

Louis R. Ince has been appointed a Vice-President of **Guaranty Trust Company of New York,** the bank announced on May 6. Mr. Ince, formerly a Second Vice-President, is officer in charge of the Custody Department, with which he has been principally associated since joining the staff of Guaranty in 1919.

Another appointment announced was that of Vincent G. Potter as a Second Vice-President. He was formerly an Assistant Manager in the Foreign Department.

* * *

The First National City Bank of New York announced on May 6 that Daniel G. Amend and Samuel W. Hamilton have been named Assistant Vice-Presidents. They were formerly Assistant Cashiers.

At the same time, the bank announced that Paulf F. Bock and William A. Dunsmuir have been appointed Assistant Cashiers.

* * *

Augustin Snow Hart and Richard M. Paget have been elected Trustees of the **United States Trust Company of New York,** according to a statement released by Benjamin Strong, Chairman of the Board.

* * *

Union Dime Savings Bank, New York, will open its new main office on Avenue of the Americas at 40th Street on Monday, June 2, it was announced on April 30 by J. Wilbur Lewis, President.

Although the bank will operate from its temporary quarters on 41st Street through Thursday, May 29, throughout the month of May, Union Dime will be moving records into its new space. The move will be completed over the three-day Memorial Day weekend.

* * *

August Ihlefeld, President of **Savings Banks Trust Company, New York,** announced the appointment of John C. Mott as Assistant Vice-President. As principal equity investment officer of the trust company, Mr. Mott will be concerned largely with the trust company's activities as investment adviser to the Institutional Investors Mutual Fund, Inc. and with the other common stock services of the trust company. His appointment was effective May 5, 1958.

Mr. Mott was Research Officer of the **Fiduciary Trust Company,** with which he became associated in 1948.

* * *

Merger of the **Central Bank and Trust Company, Great Neck, L. I.,** and the **Lynbrook National Bank & Trust Company, Lynbrook, L. I.,** has been proposed by directors of both institutions. The merger is subject to approval by stockholders. The name of the surviving institution would be Central Bank and Trust Co.

* * *

By a stock dividend **The Watertown National Bank, Watertown, N. Y.,** increased its common capital stock from $500,000 to $650,000 effective April 23. (Number of shares outstanding—65,000 shares, par value $10.)

* * *

The Belmar National Bank, Belmar, N. J., increased its common capital stock from $100,000 to $200,000 by a stock dividend effective April 21. (Number of shares outstanding—10,000 shares, par value $20.)

* * *

Five officers have been promoted by **Girard Trust Corn Exchange Bank, Philadelphia, Pa.,** it was announced by Geoffrey S. Smith, President. In addition, nine members of the bank's staff have been appointed officers.

In the Corporate Trust Department E. Morris Bate, Jr., has been advanced to Senior Corporate Trust Officer and Andrew O. Friedrich to Corporate Trust Officer. They were formerly Corporate Trust Officer and Assistant Corporate Trust Officer, respectively. Geoffrey D. Finley has been promoted to Assistant Vice-President from Assistant Treasurer in the Banking Department.

In the Trust Department John Louis Moock and Edna M. Thompson have been advanced to Investment Officers from Assistant Investment Officers. John D. Rumbough was recently transferred from the Banking Department to the Trust Department and has been named Estate Planning Officer.

John K. Shuster, Jr. and James Stewart, III, both of the Banking Department, have been appointed Assistant Treasurers. In the Consumer Credit Department George S. Doren and John R. Rivele have been named Assistant Treasurers. In the Operations Department Herbert Brock is now Assistant Secretary and William C. Yost, Jr., Assistant Treasurer.

Ennion B. Gary, Jr. and Jack I. Foard of the Trust Department have been appointed Assistant Trust Officer and Assistant Investment Officer, respectively. Oliver H. Keller, Jr. of the Corporate Trust Department has been named Assistant Secretary.

* * *

Gabriel Scott Brown died April 13. At the time of his death, Mr. Brown was Vice-President and Director of the **First National Bank and Trust Co., Easton, Pa.**

* * *

Robert S. Mohler has been named Assistant Manager of the Beaver Falls Office of **Mellon National Bank and Trust Company, Pittsburgh, Pa.,** Frank R. Denton, Vice-Chairman of the bank, announced.

Mr. Mohler came to Mellon Bank in 1949, under the bank's Management Training Program. After completing this program, he worked as a credit and loan anlyst in the Principal Office.

* * *

Milton K. Alter retired from his position as Assistant Manager of **Mellon Bank, Pittsburgh, Pa.,** New Kensington Office on May 1 after a banking career covering almost 40 years. Moving into the job of Assistant Manager of the office will be Albert A. Bittcher.

Mr. Alter went with the **Logan Trust Company, Pa.,** in 1918 as Assistant Teller. In 1930, he was named an Assistant Cashier of **Logan National Bank and Trust Company, Pa.** and in 1948, after that bank became the New Kensington Office of Mellon Bank, he was named Assistant Manager.

Mr. Bittcher has been with Mellon Bank since 1948. Before his latest promotion, he had been in the bank's installment loan section.

* * *

Robert G. Mayer has been elected Assistant Treasurer of **Fidelity Trust Company, Pittsburgh, Pa.,** John A. Byerly, President, announces.

Mr. Mayer, who has been with Fidelity since 1936, is in the bank's commercial loan department.

* * *

President Francis H. Beam of **National City Bank, Cleveland, Ohio,** announced that the bank plans to start construction soon on a new office in North Olmsted to replace its present office in that suburb.

The new office will be located about a half mile east of the present office.

Mr. Beam stated that the present North Olmsted Office has been outgrown and that the new and much larger office will enable National City to provide greatly improved service for its customers.

The present North Olmsted Office was a branch of the **Bank of Berea, Cleveland, Ohio,** which National City purchased in 1951.

* * *

Edward R. Ernst, Superintendent of the **Bank of Montreal, Canada,** international department, has been appointed an Assistant General Manager of the bank, remaining in charge of the bank's international operations.

Edward R. Ernst

Mr. Ernst, who joined the bank in 1921, served in the bank's agency in New York from 1928 to 1942 when he returned to the main office in Montreal. He was made Superintendent of the international department in 1952.

* * *

By a stock dividend the **Citizens National Bank of Waukegan, Ill.,** increased its common capital stock from $400,000 to $600,000 effective April 21. (Number of shares outstanding—30,000 shares, par value $20.)

* * *

National Bank of Detroit, Detroit, Mich., elected Donald F. Valley Chairman and Chief Executive Officer, Henry T. Bodman President and Chief Administrative Officer. Lawrence P. Fisher and George E. Parker, Jr. were elected to the board. Mr. Bodman will assume duties formerly performed by the late Charles T. Fisher, Jr., President.

* * *

The First National Bank of Jefferson Parish at Gretna, La., increased its common capital stock from $800,000 to $1,000,000 by the sale of new stock effective April 21. (Number of shares outstanding—50,000 shares, par value $20.)

* * *

By a stock dividend the common capital stock of **The National Bank of Fort Sam Houston at San Antonio, Tex.,** was increased from $300,000 to $600,000 effective April 24. (Number of shares outstanding—6,000 shares, par value $100.)

* * *

The Royal Bank of Canada announced the appointments of T. F. Whitley as Assistant General Manager, in charge of British Columbia branches, with headquarters in Vancouver, and Dr. D. B. Marsh as Assistant General Manager (Economic Research) a newly created post, with headquarters in Montreal.

Mr. Whitley, formerly General Inspector at Toronto, moves into a new position which represents an expansion in the top administration of the bank's British Columbia affairs. He will assume his new duties on June 1.

A. F. McAlpine, Supervisor for British Columbia and the bank's senior officer in the province since 1946, is retiring.

Dr. Marsh was formerly director of economic research at the Royal Bank's head office.

Senate Group's Railroad Aid Program

Senate Transportation Subcommittee announces 8-point program they will recommend to full Senate Interstate and Foreign Committee to alleviate plight of railroad transportation industry

Senator George A. Smathers (D., Florida) announced, on behalf of the Surface Transportation Subcommittee of the Senate Committee on Interstate and Foreign Commerce, that the Subcommittee reached general agreement April 29 on eight specific recommendations to be reported favorably to the full Committee. The recommendations resulted from the recently concluded hearings on the problems of the Railroads. Senator Smathers is Chairman of the Subcommittee. The other members are Senators Frank J. Lausche (D., Ohio), Ralph W. Yarborough (D., Texas), Andrew F. Schoeppel (R., Kansas), and William A. Purtell (R., Connecticut).

The recommendations are:

(1) To establish a plan of guaranteeing loans made by commercial lending institutions under strict standards and regulations administered by the Interstate Commerce Commission; to aid temporarily railroad carriers subject to the Interstate Commerce Act, that are unable to obtain needed funds through ordinary commercial channels. The guaranteed loans are not to exceed a term of 15 years and are to be used to finance or refinance acquisition and construction of equipment and other additions or betterments; to provide funds for operating expenses, working capital and interest on existing obligations. A limit of $700,000,000 is placed on the total guaranteeing authority with a limitation of $150,000,000 on guaranteed loans for operating expenses. No dividends may be paid by a carrier during the term for which any guaranteed loan is outstanding. The authority to guarantee loans expires Dec. 31, 1960, unless continued by the Congress;

(2) To provide for the establishment by common carriers subject to the Interstate Commerce Act of a "construction reserve" fund, as a means of obtaining tax deferrals to stimulate investment in equipment and other necessary transportation facilities;

(3) To provide greater flexibility in the fixing of rates, amend the Interstate Commerce Act, Section 15(a), by adding a new subparagraph 3 to read as follows: "In a proceeding involving competition with another mode of transportation, the Commission, in determining whether a rail rate is lower than a reasonable minimum rate, shall consider the facts and circumstances attending the movement of the traffic by railroad and not by such other mode";

(4) To make more effective those provisions of the Interstate Commerce Act enabling the Interstate Commerce Commission to remove discrimination against interstate or foreign commerce found to result from intrastate rates;

(5) To vest the Interstate Commerce Commission with authority to authorize, in proper cases, the discontinuance, curtailment or consolidation of unprofitable railroad services and facilities burdening interstate commerce;

(6) To limit the scope and application of the agricultural commodities clause of the Interstate Commerce Act in accordance with Ruling No. 107, March 19, 1958, Bureau of Motor Carriers, Interstate Commerce Commission; with the exception of frozen fruits and frozen vegetables and imported agricultural commodities, which would be made subject to regulation;

(7) To make it clear that all commercial transportation of property by motor vehicle in interstate or foreign commerce, except private carriage and transportation otherwise specifically exempt, is subject to regulation, thus incorporating into law, the prohibition against buy and sell operations; and

(8) To provide for a transportation policy study group of three qualified transportation experts to study important matters of transportation policy and report thereon within 18 months.

Further, we have recommended to the appropriate committees of the Senate (a) that the 3% and 10% Federal excise transportation taxes on freight and passenger charges be repealed, (b) that the charges for carrying mail be made more equitable, and (c) a more realistic depreciation allowance on railroad plant and equipment be established.

J. J. Mead Joins Francis I. du Pont

James J. Mead Jr., formerly investment officer of the Greenwich Savings Bank in New York in charge of that institution's investment portfolio for the last nine years, has become associated with Francis I. du Pont & Co., 1 Wall Street, New York City, members of the New York Stock Exchange, in its Institutional Department, it was announced.

Prior to his service with Greenwich Savings Bank, Mr. Mead had been active in the investment side of commercial banking for more than 20 years, having served with the Guaranty Trust Company of New York, Continental Bank and Trust Company and the Chemical Bank and Trust Company.

Ball, Burge Adds

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio—Frank W. Treadway is now affiliated with Ball, Burge & Kraus, Union Commerce Building, members of the New York and Midwest Stock Exchanges.

Eastman Dillon Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif. — Fredrick C. FitzGibbon has become affiliated with Eastman Dillon, Union Securities & Co., 3115 Wilshire Boulevard. Mr. FitzGibbon was formerly with Dean Witter & Co.

Joins C. W. Geisel

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Cal.—G. Robert Mecke has become associated with C. W. Geisel & Co., 618 South Spring Street, members of the Pacific Coast Stock Exchange. He was formerly with Pledger & Co.

How Are Banks Doing Under Easy Money Policies?

By MORRIS A. SCHAPIRO*

President, M. A. Schapiro & Co., Inc., New York City

Well known banking expert explains why banks, in their attempts to maintain earnings, face their greatest test in many years. Believes public would understand the logic of a cut on savings interest rate.

Although the long-term outlook for the nation's banks is favorable, the most pressing problem facing managements today is the necessity of maintaining adequate earnings under the present conditions of lower interest rates and "built-in" high costs.

Morris A. Schapiro

Despite the progress of banks in the field of "electronic labor," the great expansion of banking services during the postwar years inevitably resulted in higher unit costs of operation. Thus, even the large low-cost operators in New York City, have experienced an increase in the critical yields on loans and investments required to break even, from 0.93% for 1951 to 1.48% in 1957.

Declining interest rates are narrowing the profit margins of commercial banks. In many banks, of course, this is offset by a rising total of loans and investments. Nevertheless, under easier money, bank earning power will be adversely affected by inflexible costs. Bank managements, in their effort to maintain earnings, face their greatest test in many years.

Payment of interest on demand deposits is, of course, prohibited by the Banking Act of 1933, but the Federal Reserve Board has the power to regulate the maximum rate of interest that may be paid on time deposits, including savings. This was done to protect member banks from destructive competition.

Such authority carries with it a continuing responsibility. In December, 1956, the Board raised the ceiling on the savings rate from 2½% to 3%. To be realisitic, the Board's monetary policies should apply to interest rates paid as well as to interest rates earned. Otherwise, it will, in effect, be encouraging unwise lending and investing policies.

Continued monetary ease calls for lower interest rates paid on savings deposits. Meanwhile individual banks must realistically relate the rate they pay to the rate they earn. This is especially urgent where the proportion of savings deposits is high.

Now that banks have announced their second reduction in the prime rate, the logic of a cut in the rate paid on savings is clear. The public is realistic and understands the implications of easy money. Bank managements can do no less.

*From a talk by Mr. Schapiro before Providence Chapter of the American Institute of Banking, Providence, R. I., April 23, 1958.

Business Upturn in Mid-June Indicated by Commercial Loan Trend

If commercial finance companies' accounts receivable loans continue to serve as a reliable lead indicator then, according to Mr. Silbert's findings, business upturn's turning point should occur at about June 15.

Indications are that general business activity will start upward about June 15, 1958, if commercial loans today are as accurate a forecast of business activity as such financing was in the two previous postwar dips of 1948 - 49 and 1953 - 54.

Theodore H. Silbert

The prediction of the upturn in business by June 15, is based on the cycle of business loans by 51 commercial finance companies in the major cities of the nation in the last 10 years. The financial resources of these companies total $600,000,000.

The survey was made by Standard Financial Corporation, and entitled "The Relation Between Commercial Finance Company Loans and the Business Cycle." It was released April 29, 1958 by Theodore H. Silbert, President of Standard Financial.

Trend of Such Financing

The survey asked the 51 commercial finance companies to tabulate their accounts receivable loans to business corporations during the last two downturns in the business cycle, to see whether such loans anticipated the business cycle, or merely followed it.

While commercial finance companies handle a whole variety of financing, accounts receivable loans were selected for study because such loans are used by businesses solely for constructive purposes of expanding production and sales.

Two previous business dips were examined. Both occurred after World War II: the down cycle from November, 1948 to October, 1949, and the second slide from July, 1953 to August, 1954.

The composite data from the 51 commercial finance companies indicate that in the first business slide (November, 1948 to October, 1949), accounts receivable loans did not dip until approximately 2.7 months **after** the general business cycle started down from its peak in November, 1948. (Because business statistics lag, the dip was not evident until later.)

Loans Started Up Earlier

On the business uptrend, which started in October, 1949 (and was not evident until later), accounts receivable loans started to rise in August, 1949, or approximately two months **before** the trend of business activity had started up.

In the second slide (July, 1953, to August, 1954), commercial finance loans did not decline for three months **after** general business activity had begun to slip. However, on the business upgrade which started August, 1954, accounts receivable loans started to rise in June, 1954, or two months **before** the general business trend had started up.

In short, the rise in accounts receivable loans in both 1949 and 1954 instances, **anticipated** the upturn in business by two months.

What About Today's Trend?

In the light of this limited data from two postwar business dips, the Standard Financial survey decided to examine the trend of accounts receivable loans last year, and today. A composite of the major statistics now indicates that the current business downturn started approximately in the middle of May, 1957.

The accounts receivable loans to business customers of the 51 commercial finance companies in this survey, started to dip in the middle of August, 1957. This was about three months **after** the boom had reached its peak. This closely parallels the trend of such loans in the 1948-49 and 1953-54 declines.

Accounts Receivable Loans In 1958

What about accounts receivable loans today? While the accounts receivable loans of the 51 commercial finance companies started to decline in August, 1957, they continued to decline until the week of April 14, 1958. The drop from month to month lessened, until the week of April 14, 1958, showed an upturn for the first time since August, 1957.

Some of the 51 commercial finance companies in the survey reported a pickup in loans prior to April 14, and some companies in the survey reported the decline was still continuing. But the 51 company composite for the week of April 14, shows that the drop has stopped.

Since in the past two business slides, an upturn in commercial finance loans had preceded the general business upturn by two months, the favorable showing of accounts receivable loans during the week of April 14, 1958, would indicate that within two months a general business upturn should be under way. This places the turning point at about June 15, 1958. With the lag in business statistics, this should be evident about August.

Brugger Receives Order of Merit

The decoration of Knight Officer of the Order of Merit of the Italian Republic was awarded to Charles W. Brugger, retiring Vice-President of Irving Trust Company, by the president of the Republic of Italy as a sign of appreciation for his contribution to the development of Italian-American banking relations and the strengthening of friendly relations between the two countries. Associated with the bank for over 25 years, Mr. Brugger has supervised its business with Italy and other European countries.

The presentation was made by Baron Carlo de Ferrariis Salzano, Consul General of Italy.

With First Fidelity

(Special to THE FINANCIAL CHRONICLE)

ATLANTA, Ga. — Raymond B. Kellett is with First Fidelity Securities Corporation, 11 Pryor St., S. W.

Joins R. S. Dickson

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, Ill. — Richard J. Ackermann is now affiliated with R. S. Dickson & Co., Inc., 135 South La Salle Street.

With Preston, Moss

(Special to THE FINANCIAL CHRONICLE)

BOSTON, Mass.—Earl W. Sleeth has become connected with Preston, Moss & Co., 24 Federal Street. He was formerly with White, Weld & Co.

Bank and Insurance Stocks

By ARTHUR B. WALLACE

This Week — Insurance Stocks

One way of bringing out clearly the impact of the various principal lines of writings on company loss and expense ratios is to go back for five years for each category. It will be recalled that we have pointed out on several occasions that the normal experience of the fire-casualty insurance companies is to have, possibly, a few lines act up for several years, but for the others to balance off the unsatisfactory ones and thus leave the company or industry with a fair showing for the period. Thus when the hurricanes were piling up such severe losses in extended coverage in 1953, 1954 and 1955, straight fire, ocean marine, auto physical and workmen's compensation were comforting offsets for the insurance companies.

To be sure, the extended coverage losses were of such magnitude that they pulled down what would have been quite favorable underwriting years. But when practically all major lines crowd in and give the companies a bad time—and not merely for a single year, we may add—the industry is faced with a really serious problem.

And, on top of this, the supervisory authorities come up with niggardly rate adjustments, or none at all in some States, as in New York, and the carriers are faced with a serious drain on surplus funds in some cases. If this condition prevails much longer we are likely to witness some "shotgun" mergers. There have already been a number of mergers, but few have been forced. Rather they have been made with an eye to reducing operating expenses, or, possibly, to cut taxes.

However that may be, the 1957 loss and expense ratios were mostly unusually high with the exception of compensation and miscellaneous liability; and these were not far below the line. For the years 1953 through 1957 there are presented the loss and expense ratios, combined, of the categories that account for the greatest part of the industry volume. It is to be noted that some of the smaller lines turned in excellent showings in most cases, such as in fidelity and surety coverages. The best evidence of this is the underwriting exhibits of such companies as Seaboard Surety and Fidelity & Deposit.

Loss and Expense Ratios*

	1953	1954	1955	1956	1957	Average
Fire	92.5%	91.5%	94.2%	100.7%	101.3%	96.0%
Extended Coverage	115.9	143.2	114.5	107.4	105.0	116.3
Ocean Marine	90.4	83.6	88.4	101.0	104.0	94.0
Inland Marine	90.8	95.9	99.6	104.7	104.7	99.5
Miscellaneous Liability	97.5	96.9	96.3	94.9	99.5	97.0
Workmen's Compensation	93.8	90.0	93.0	93.7	97.1	93.7
Auto Property Damage	93.7	88.7	92.7	100.8	105.3	96.6
Auto Physical Damage	87.4	84.3	97.3	99.5	102.5	92.2
Auto Bodily Injury Liability	97.8	97.5	103.1	109.8	116.0	105.6

*Losses and loss adjustment expenses to premiums earned; underwriting expenses to premiums written.

It will be noted that these data are derived from a sizable number of important groups. In other words, it does not reflect the results of the industry as a whole, but rather a number of fleets that not only are representative of the industry, but that do a large proportion of the total business done.

The fire line has been in a rising trend since 1954, and, while the five-year average is only 96.0%, leaving a fair underwriting profit margin for this aggregation of groups, it is to be emphasized that the two earliest years were mainly responsible for this figure.

Extended coverage continues to turn in a bad showing. While its trend has been an improving one since 1954, both 1956 and 1957, the best two years of the five, add no comfort to the companies. And this has been a growing line of writings; just in this period net writings of the companies covered have advanced from $277 million to $366 million, an increase of about 32%. We suppose that some day extended coverage will be brought into the profit column, now that the companies are using deductibles; but it remains a hazardous line with the possibility of hurricanes and with the ever-present tornado.

The same can be said about ocean marine that has been said about fire. It also is in a rising trend; and ditto inland navigation.

Miscellaneous liability has shown black in all five years, although not to a degree that exactly cheers management. Compensation, too, has been profitable, and on an increasing volume of writings.

The *bete noir* has been the motor vehicle lines. Auto physical damage, a large line, has not done badly on average, but its trend is unfavorable. This has been true too of auto property damage. Auto bodily injury not only has an unfavorable trend, but in the last three years registered pronounced losses, the 1957 underwriting loss margin being 16%.

Continued from page 9

Oils and Chemicals: Close Relatives Growing Closer?

There is, however, an end to this street.

Second, he has increased the complexity of many of his products, adding more value by manufacture so that the increasing cost of feed will be proportionately less important. In doing so, however, he finds the increasing cost of plant and operating labor gets to be still more of a problem; he also finds that, just as with gasoline, his products tend to be more performance-type chemicals and his marketing problems multiply. He is a long way from the original basis of petrochemical success.

The walking of this many-dimensional tightrope is the petroleum chemical business today. And there is no safety net underneath to catch the careless.

With all this, however, the petroleum chemical industry has learned to live and to grow. Figures on its size tend to be difficult to come by, even under my definition; and it is harder yet to trace the portion that actually comes from oil. Here, I would observe parenthetically, our relatives are departing radically from one another, for it is possible to follow the oil through the oil business with considerable confidence. Still, I think it is likely that well over 1% of the oil barrel finds its way into petrochemicals in the U. S. A., a figure probably 50 times the fraction prevailing a quarter century ago. Moreover, since advanced petroleum chemical operations offer a considerable degree of upgrading, both of their petroleum and of their non-petroleum feeds, and so turn out products selling for several times the cost of the combined feed, it is evident that in the U. S. A., the petrochemical industry represents something of significance in that country's economy.

Looks at Canadian Position

We might digress here for a moment and consider where we stand in Canada in this field. Our consumers enjoy these chemicals nearly on a par with their U. S. counterparts. For instance, in the soap and synthetic detergent industry, where syndets—until recently — were made in Canada from imported petrochemicals — 1956 was the year in which the poundage of synthetic detergents exceeded the poundage of soap. This 50% point had been passed in the U. S. only three years earlier —in 1953.

The per-capita production of petrochemicals in Canada, however, lags the U. S. by something more like 10 years, and the dollar of invested petrochemical capital in Canada is turning out perhaps a half dollar of annual sales as compared with around a dollar in the U. S. A. These estimates, while necessarily very rough, do show that we have a situation in Canada, caused by the smaller Canadian market and the abundant supply of material from large American facilities, which did not confront our neighbors to the south; and which makes it an over-simplification simply to assume that our development here will follow willy-nilly, along the U. S. A. path with a given time lag.

One wonders, however, if our problems are really different, in basic principle, from those confronting our American colleagues in their formative period. I think not. They may have had a happier feedstock and marketing situation, but on the other hand they did not have 1958-model chemical skills. The result was a hard struggle for those pioneers, and, I will wager, many years of financial soul-searching and of operations at low sales-investment ratios. Indeed such a condition must be accepted in the early years of such a youthful industry in a youthful country. If every investment dollar were considered against the return the same dollar might gain in some other industry —say an oil well—in a country like Canada, the chemical industry might never have got started. As a matter of fact, I think the Canadian oil industry too is finding a young man doesn't easily command the income of his old uncle!

One will not find the answer to such problems in a handbook. They will, however, be solved here as elsewhere by the application of the same hard work, foresight, and acceptance of risk, which has been characteristic of the oil, chemical and many other great industries under the private enterprise system.

Relatives Getting Closer?

Granted that, like gasoline, today's more complicated petrochemicals (plastics, resins, detergents, synthetic rubber, insecticides, etc.) are largely performance chemicals—are these relatives in fact getting closer? In this sense of performance, yes; however, there are some important differences. God knows the manufacturing and marketing know-how of the oil refiner has to be complex indeed — dealing as he does with products as diverse as high-test aviation gasoline through lubricants to asphalt and paraffin wax. Nevertheless it pales by comparison with the complexity which faces the petroleum chemical man. The latter has a foot in a thousand markets and must know each one intimately to succeed in it. Today in this business, one can no more rely on a successful leap from the solid base of plentiful feed to the equally solid landing of a reliable market than a man who owns a cotton field can overnight start up a successful textile business. He needs a deep understanding of each particular market he hopes to help supply.

Possibly after some of the more pessimistic passages of the foregoing, you will say my first name should be Jeremiah. Maybe you'll say it's "Thus Far And No Further" for our chemical division. Or maybe that I'm trying to scare off newcomers to an already rather crowded party.

I hope not — because none of these things is my intention. Our chemical division, in relative terms, is the fastest moving of any part of our company, and in a country like ours will continue to be. And as to the crowded party, I think it is refreshing and healthy —even if my board may have some understandable misgivings—when two companies announce that they are both building detergent alkylate plants, each capable of supplying the total Canadian market! Certainly it's healthy for the soapers.

Don't imagine from anything I have said that petrochemicals are any sort of a skeleton in the closet. Not even the one who said if he had any guts he would get the hell out of there!

Race Goes to the Soundest

I do say however that the race will go, not necessarily to the fleetest, but, because it is a long-distance race, to the soundest. Good chemical engineering will play a very important role. So will the development man. It will be hard work because the competition is hard, not only amongst units within the petroleum chemical industry, but also between the industry as a whole and other industries serving similar human needs via different routes.

I said the race will go to the soundest. It will also go to the boldest—especially to the bold in thought and imagination. He will forge ahead who can leap over tradition and the preconceived. Then some future historian will write of him what Voltaire wrote of the late 17th Century. Because we are in Quebec, I will say it in his language. "Tous les genres de litterature ont ete epuises dans ce siecle, et tant d'ecrivains ont etendu les lumieres de l'esprit humain, que ceux qui, en d'autres temps, auraient passes pour des prodiges, ont ete confondus dans la foule. Leur gloire est peu de chose a cause de leur nombre, et la gloire du siecle en est plus grande."

As I have said before in Montreal, for those of you who are not sufficiently civilized to understand my massacre of the French language, I will translate.

May future historians write of us as Voltaire did of the age of Louis XIV — "All branches of science and literature were utilized in this century, and so many contributed to extend the enlightenment of the human spirit that those who would have been accounted marvellous in former ages, were now lost in the crowd. Their individual glory is slight on account of their number, but the glory of their age is all the greater."

Customers' Brokers "Operation Upturn"

On May 13, 1958, at Schwartz's Restaurant at 3:45 p.m., 55 Broad Street, Third Floor, the Customers' Brokers Association will unveil its approach to "Improving Your Income." Three well qualified speakers will discuss subjects which should provide at least one new idea to everyone attending. The subjects and speakers will be as follows:

Is It Profitable to Sell Mutual Funds?—H. L. Jamison, President, Hare's Ltd.;

Effective Use of Research Material in Selling—Walter Gutman, Senior Analyst, Research, Goodbody & Co.;

Dial "M" for Money — Wm. Uskali—Director of Creative Planning, Wilding Prod., Inc.

Bond Club of N. Y. Annual Offering

The Bond Club Stock Exchange, which operates a bull market once a year in connection with the Bond Club of New York's annual Field Day, is making its 1958 offering.

Trading in the shares will take place June 6 at Sleepy Hollow Country Club, where the outing will be held.

Allen J. Nix, Riter & Co., is Chairman of the Bond Club Stock Exchange Committee.

Reynolds Adds to Staff

(Special to The Financial Chronicle)

CHICAGO, Ill. — A. Martin Randall has been added to the staff of Reynolds & Co., 39 South La Salle Street.

Paine, Webber Adds

(Special to The Financial Chronicle)

BOSTON, Mass. — Donald W. Blodgett has become affiliated with Paine, Webber, Jackson & Curtis, 24 Federal Street.

With Patterson, Copeland

(Special to The Financial Chronicle)

CHICAGO, Ill.—Leon A. Faber has become affiliated with Patterson, Copeland & Kendall, Inc., 231 South La Salle Street.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The Government market is backing and filling in an attempt to shake out the speculative element which had bought Treasury securities because of the uncertainty in the equity market. Along with this, there is a certain amount of "professional operations" which tends to give the market a narrow, inactive and cautious appearance. There is no question but what the rise in quotations of Government securities has been very rapid, and this in itself is reason enough for some kind of technical reaction which is about what we have been having, in the opinion of most money market specialists.

The current money market policy of the monetary authorities is being termed one of "active ease" which is more than likely to get easier. It is the belief in most quarters of the financial district that as long as the recession shows no signs of abating there will be favorable money measures taken by the powers that be to make credit easier, interest rates lower and to increase the money supply.

Treasuries Competing With Other Investments

The Government list continues to be faced with minor competition from the new offerings of corporate and tax-free obligations. The yields which are available in the latter two types of securities is resulting in moderate sized sales of Treasury issues, with the proceeds being reinvested in these non-Government obligations. In spite of the yield spread in favor of the corporate and tax-exempt issues, it is not expected that the exchanges from Treasury securities into the non-Government obligations is going to reach sizable proportions.

In the first place, there are certain institutional buyers of securities who can buy only United States Government obligations. In the second place, other institutional purchasers of United States Government issues have bought them at levels which still gives them a yield that is more favorable than those which are obtainable in corporate issues or the tax-exempt securities.

Also, the yield spread between Government securities and non-Treasury issues has narrowed considerably so that one of the prime reasons for the sale of Treasury issues and the reinvestment of the proceeds in corporate or tax-free obligations is being steadily dissipated.

Liquidation by Foreigners Not Important

The sale of American Government securities by foreigners, in order to get higher returns on the other side of the water, is still going on but this is not expected to amount to a great deal. Also, the bulk of the issues being sold by these people are short-term obligations, which are being very steadily absorbed by the large commercial banks that are interested in building up their near-term liquid position.

Some exchanges from Government securities into common stock are still being made but in spite of the favorable market action of equities these switches are also not expected to be very important as long as there are no positive signs that the recession has run its course and the turn on the upside has been made.

"Active Ease" Money Policy Assured

The money market is going to stay on the side of "active ease" in the opinion of not a few important money market specialists. It is evident to them that the coming refunding operation which is to take care of the June maturities will find a receptive money market, one in which there will be ample credit and at rates that will be to the satisfaction of all concerned. If there is a tie-in between the Treasury and the monetary authorities on debt management policy, and many people in the financial district most certainly hope there is, then the refunding obligations for the June maturities will be tailored to meet the needs of the commercial banks. By having the bulk if not all of the refunding issues going into the commercial banks, an attempt will be made to offset the deflationary effects of the liquidation of loans. It is to the advantage of the economy to have the money supply on the offensive and one of the ways in which this can be done is by having the Government sell its securities to the deposit banks.

Market Fearful of June Refunding Package

In spite of the opinions that the impending refunding operation should be purely a commercial bank job, reports are going around the financial district that the Treasury in its package offering will have an intermediate or long-term issue which could be attractive to others than the deposit banks. This means that money which should be going into mortgages and other depression halting securities would be put to work in Government securities. The problem of deflation would not be as effectively attacked as if the refunding operation were taken care of entirely by commercial banks. Therefore, it is with not some feeling of minor concern that the money market is looking toward the June refunding operation.

Forms Walters Inv.

(Special to The Financial Chronicle)

ORANGE, N. J. — Lucille C. Walters is engaging in a securities business from offices at 399 Lincoln Avenue under the firm name of Walters Investments.

Forms C. M. McCammon

KANSAS CITY, Mo.—Clarence M. McCammon is engaging in a securities business from offices in the Rialto Building, under the firm name of C. M. McCammon Co.

Three With Hathaway

(Special to The Financial Chronicle)

DENVER, Colo.—James E. Andrews, Boyd R. Bohrer and Douglas P. Jones have joined the staff of Hathaway Investment Corp., 900 South Pearl Street.

Joins D. B. Fisher

(Special to The Financial Chronicle)

DETROIT, Mich.—Lee S. DeLand has become affiliated with D. B. Fisher Co., Buhl Building, members of the Detroit Stock Exchange.

UNION PACIFIC RAILROAD COMPANY

SIXTY-FIRST ANNUAL REPORT — YEAR ENDED DECEMBER 31, 1957

REPORT OF THE BOARD OF DIRECTORS

New York, N. Y., April 24, 1958.

TO STOCKHOLDERS OF UNION PACIFIC RAILROAD COMPANY:

The Board of Directors submits the following report for the Union Pacific Railroad Company, including its Leased Lines,* for the year ended Dec. 31, 1957.

CONDENSED STATEMENT OF INCOME

	1957	1956	Increase (+) Decrease (—)
Operating revenues	$517,060,102	$514,316,828	+$2,743,274
Operating expenses	$382,354,717	$376,254,724	+$6,099,993
Taxes (including taxes on income from oil and gas operations)	73,689,677	73,538,270	+ 151,407
Equipment and joint facility rents—net charge	22,197,684	22,386,672	— 188,988
Net income from transportation operations	$ 38,818,024	$ 42,137,162	—$3,319,138
Net income from oil and gas operations (excluding income taxes)	29,097,113	26,603,162	+ 2,493,951
All other income	15,383,756	15,380,910	+ 2,846
Total income	$ 83,298,893	$ 84,121,234	—$ 822,341
Interest on funded debt	$ 4,520,711	$ 4,670,071	—$ 149,360
Miscellaneous rents and charges	530,406	882,318	— 351,912
Total fixed and other charges	$ 5,051,117	$ 5,552,389	—$ 501,272
Net income from all sources	$ 78,247,776	$ 78,568,845	—$ 321,069

Net income per share of common stock, after dividends on preferred stock, was $3.34—only about 2 cents less per share than in 1956, and the dividends of $1.60 per share declared on such stock (about 48 per cent of net income after preferred dividends) were the same as in 1956. However, net income from transportation operations declined sharply and the relatively satisfactory showing in total income was primarily the result of the increase in income from oil and gas operations.

After allowing for Federal taxes on income from oil and gas operations, total *non-transportation income* was $35.5 million in 1957, or $1.60 per share of common stock.

The importance of such income may be appreciated by considering the following: Adjusting net *transportation income* ($38.8 million) by adding back income taxes applicable to oil and gas operations and the non-cash charges for depreciation and retirements of transportation property, produces an amount of about $76 million. Against this, payments of interest and other charges, expenditures for improvements to transportation property, cost of retiring debt, and payment of preferred dividends, aggregated $71.8 million, leaving a balance of $4.2 million, or about 19 cents per share of common stock.

OPERATING REVENUES

Although **Freight revenue** was greater than in 1956, the amount of the increase was disappointing and fell considerably short of compensating for added operating costs resulting from increases during the year in wage rates and prices of materials. Average revenue per ton-mile increased 3.8 per cent, because of the freight rate increases effective March 7 and December 28, 1956 (mentioned in last year's report) and further increase authorized by the Interstate Commerce Commission, effective August 26, 1957. However, almost three-fourths of the increase in revenue from the higher average revenue per ton-mile was offset by the effect of a decrease of 2.6 per cent in ton-miles carried, caused by a decline in traffic during the last four months of the year, with a general slowing down of industrial activity.

The Western railroads applied in January, 1957, for a 17 per cent increase in freight rates in order to improve the rate of return on railroad investment to a basis more comparable with that of other leading industries. However, the Commission authorized, effective August 26th, an increase of only 7 per cent (with "hold-downs" on many important commodities, such as lumber, agricultural products, and coal) which was intended to compensate for higher wages and other costs under conditions then existing. It suggested that the railroads might apply later in the year for additional increases in freight rates and charges to cover anticipated higher wage rates and other costs, with the proviso that they should be requested on a selective basis, applying to specific commodities and services, rather than on a flat percentage basis applying equally to all commodities (except for "hold-downs"). Accordingly, on December 19, 1957, the railroads filed an application for increased rates on the basis suggested, and the Commission permitted certain increases (averaging about 1.64 per cent for Union Pacific on a weighted basis) to become effective February 15, 1958, on a temporary basis pending completion of its investigation.

The greatest revenue *increases* were in *iron and steel products, iron ore,* and *bituminous coal,* because of increased operations of steel plants, with iron ore and bituminous coal shipments being also stimulated by heavy exports; *sorghum grains,* chiefly because of larger crops of milo maize in Kansas and Nebraska; *canned and packaged food products,* due principally to more shipments by Pacific Coast canneries to the East because of favorable market conditions; and *plywood,* as the result of increased utilization for sheathing by the building trades.

The largest *decreases* were in *forwarder traffic* (shipments consolidated by freight forwarders for movement in carload service) because of the drop in general business activity and the loss of some North Pacific Coast traffic diverted through a combination of factors to Vancouver, B. C., via routes in which the Union Pacific is unable to participate; *lumber,* due primarily to a sharp decline in construction of homes; *wheat,* because of reduced movement from Government storage to Pacific Northwest ports for export; *petroleum products,* as the result of a further loss to pipe lines and trucks, and the growing use of natural gas in place of fuel oil; *automobiles and parts,* chiefly because of decreased sales of cars and greater utilization of highway transports in lieu of rail movement; and *livestock,* reflecting reduced movement to Pacific Coast States from the Midwest where fewer cattle and hogs were available for shipment, partly because of drought conditions in some areas.

*Leased Lines are: Oregon Short Line Railroad Company, Oregon-Washington Railroad & Navigation Company, Los Angeles & Salt Lake Railroad Company, and The St. Joseph and Grand Island Railway Company. Figures in the Income Account are stated on a consolidated basis, excluding offsetting accounts between companies.

The decrease in **Passenger revenue** was caused chiefly by a further sharp decline in sleeping-car passengers carried, including military personnel. There was also a small decrease in coach travel, but revenue therefrom was somewhat greater than in 1956, because of a 5 per cent fare increase (also applicable to other types of accommodations) effective January 1, 1957.

The increase in **Mail revenue** resulted from a 7½ per cent increase in compensation for transporting mail, granted to Western railroads by the Post Office Department, effective July 1st, in recognition of the increased costs of providing such service.

The decline in **Express revenue** was due to a decrease in less-than-carload shipments resulting from a teamsters' strike against the Railway Express Agency April 22 to July 22, 1957, and to the general decline in business during the latter part of the year.

The decrease in **Other revenue** was largely in receipts from dining and buffet cars, due to fewer passengers carried, and from boarding outfits operated for maintenance employes, because of a reduced number of outfits in service; offset in part by increased switching revenue due to increased rates.

OPERATING EXPENSES

The increase in **Operating expenses** was the result primarily of increases in wage and salary rates and in cost of "fringe" benefits to employes. In addition to the basic increases effective November 1, 1956 (10 cents per hour) and November 1, 1957 (7 cents per hour) and the cost of medical and hospitalization insurance for employes' dependents (mentioned in last year's report), all organized employes received cost-of-living wage increases in 1957 of 3 cents per hour effective May 1st and 5 cents more per hour effective November 1st. Notwithstanding higher prices for materials and supplies and greater charges for depreciation and for retirements of road property, if it had not been for the inflation of wages and increased employe benefits, operating expenses would have been about $9.6 million less than in 1956, because of the smaller volume of freight handled, increased operating efficiency, reduction in passenger-train miles operated, less repairs to passenger-train cars, and decreased rail renewals.

Way and structures were well maintained. Quantities of rails, ties, and ballast used in main track renewals were as follows:

	1957	Decrease under 1956
New rails (track miles)	123.93	100.33
Second-hand rails (track miles)	69.80	20.86
Total rails (track miles)	193.73	121.19
Ties (number)	711,756	100,866
Ballast (cubic yards)	429,787	14,637

TAXES

The decrease in **Federal income taxes** was the result of less taxable income in 1957 than in 1956. In determining such taxes, taxable income was reduced (as in each year since 1949) by the excess of (a) deductions for amortization, on a 5-year basis, of portions of the cost of equipment and other improvements certified by the Office of Defense Mobilization to be necessary for national defense, over (b) depreciation prescribed by Interstate Commerce Commission regulations, with equal annual charges spread over estimated service lives of such improvements, i.e., the "straight line" method of depreciation. The approximate amounts involved for 1957 compared with 1956 were:

	1957	Increase (+) or Decrease (—) vs. 1956
Amortization deductions	$28,352,525	+$515,815
Excess of amortization over depreciation	21,202,755	— 193,810
Reduction in income taxes	11,025,433	— 100,781
Betterment in net income per share of common stock	$.50	---

The greater part of such reduction in income taxes represents a tax deferment rather than a permanent saving (unless income tax rates should be reduced in some future year). The Office of Defense Mobilization has discontinued granting certificates for amortization of any railroad property except certain equipment which had been ordered, or construction of which had been authorized, prior to January 1, 1956. Therefore, beginning in 1961, income taxes will tend to be greater than they would have been if the deductions for accelerated amortization had not been taken.

The increase in **Federal unemployment insurance tax** was due to an increase in the tax rate (applied to the first $350 of each employe's monthly wages) from 1½ per cent in 1956 to 2 per cent in 1957.

State and county taxes continued their disturbing upward trend, with generally higher tax rates in 1957 for ad valorem and other property taxes.

Total taxes for 1957 were equivalent to 14.3 per cent of total operating revenues, $1,611.44 per employe, and $3.32 per share of common stock or only 2 cents less than the Common Stockholders' equity of $3.34 per share in net earnings.

OIL AND GAS OPERATIONS

	1957	1956	Increase	Decrease	Per Cent
Receipts from sale of oil, gas, and other products	$42,274,553	$42,678,455	....	$403,902	.9
Production expenses (including depreciation)	$6,915,134	$8,155,183	....	$1,240,049	15.2
Taxes (other than income taxes)*	3,481,925	3,170,973	$310,952	....	9.8
Intangible drilling and development costs†	2,780,381	4,749,137	....	1,968,756	41.5
Total charges against receipts	$13,177,440	$16,075,293	....	$2,897,853	18.0
Net income from oil and gas operations	$29,097,113	$26,603,162	$2,493,951	....	9.4
Drilling & development costs not charged against receipts	$1,120,390	$1,883,587	....	$763,197	40.5

*Federal taxes on income from oil and gas operations, of approximately $8,993,000 in 1957, and $7,968,500 in 1956, are included in "Taxes" under "Transportation Operations."

†Represents costs such as labor, fuel, repairs and hauling in connection with drilling, geological work, clearing ground, building roads, and certain materials with no salvage value.

The decrease in receipts resulted from a further decline in production of oil in Wilmington field, the effect of which was largely offset by an increase in the average price received per barrel of oil, and by increased receipts from other fields due to higher oil prices, the aggregate production from such other fields having been about the same as in 1956. The decrease in production expenses was chiefly in Wilmington field due to smaller charges for depreciation and reduced necessity for protective measures to offset the effect of land subsidence. Most of the increase in taxes represents higher assessments on property and oil rights in Wilmington field. The decrease in intangible expenditures resulted from fewer wells having been drilled in Wilmington field, with somewhat greater drilling activity in other areas where the Company shared in drilling costs.

A Report on the Economy And Construction Industry

By DR. GEORGE CLINE SMITH*
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F. W. Dodge's Vice-President and Economist analyzes the present business situation and construction trend. Dr. Smith, in evaluating the evil and good forces at work, believes that while "we have not reached the bottom of this business dip . . . we don't have the makings of a real depression." Contemplates for construction a relatively good year as a whole in 1958 but expresses pessimism regarding short-term new industrial expansion prospects. Reveals sharpest construction decline is in factory buildings but that several types of construction, including highways and electric utilities, are running ahead of last year. Predicts upturn in factory building within a relatively short time is practically certain but urges all of us, including the government, to recognize the existing situation and take appropriate counter measures.

Industrial development is a highly competitive field—one of the most highly competitive, in fact. In many competitive industries, good selling tactics go a long way toward increasing the total amount of sales by the industry; better selling can make more business for all the competitors.


Dr. George C. Smith

To some extent, the same thing is probably true of industrial development. By and large, however, competition within this field determines the division of a pie whose size is largely established by independent, outside factors.

That's why the general business outlook is always important, and why it's doubly or triply important in these confused times of early 1958. If nobody plans to build new plants, there isn't much you can do in the way of local industrial development. If everybody plans a new plant, then there's a lot you can do—and you darned well have to do it in this business, or somebody else will be doing it for you.

I am in a situation today which is governed by several conflicting rules. Shakespeare, for instance, warns at one point: "Though it be honest, it is never good to bring bad news." But he also said, "Truth will come to light." I prefer the latter, myself, even though I respect the implication of the former—I am mindful that at some times and places, messengers who brought bad news had their heads chopped off.

Granting that I want to speak the truth, and that you want to hear it, we still face the question, in our confused current economic scene, of what is truth. We had an opportunity only last week to see a diametrical difference of opinion between two leading citizens over what seem to be cold, mathematical facts. I am referring to the release of the March unemployment figures, which were interpreted by one leading citizen as a sign that the recession was ending, and by another as an indication of a deteriorating situation. I think that both of these men were being absolutely honest, even though they were 180 degrees apart in interpreting what were apparently the same figures. The fact is that the two men were *not* looking at the figures in the same way; one was looking at the March figures as absolutes, and on that basis, they showed just what he said they showed. The other was looking at them in relation to normal seasonal factors, and on that basis, they showed just what *he* said they showed. It's no wonder that most of us are confused. To re-work the old saying, figures don't lie, but honest men figure—and come to different conclusions.

Present Situation

What facts can we establish about the present business situation?

First, I think we can all agree that what we have now is a genuine recession, somewhat more severe than the other two we have had in the postwar period. There are many millions of people who haven't even noticed this recession, but others are hurting. To the more than 5,000,000 unemployed, to merchants in unemployment areas, to workers whose salaries have been cut, this is no laughing matter.

Second, I think we can agree that this recession developed with surprising speed. When I was invited here last September, there was hardly a businessman or economist who thought that by the end of the year, we would be talking in terms of a recession already underway. Even those of us who expected some business dip in 1958 hardly conceived that it would hit in 1957.

Why did the recession come so much faster than anyone expected? There are probably at least three reasons.

First, we suffered something of a shock to our national confidence when the first Sputnik orbited in October.

Second, President Eisenhower suffered what we now know was a very mild stroke, at the worst possible time.

Both these traumatic experiences influenced the psychological atmosphere in which our economy operates. They probably affected thought leaders, including businessmen, more than they did the general consuming public.

The *third* factor is that along about the same time, a wave of defense economy had gotten underway in Washington. Orders were stretched out or canceled, and if you will recall, there were some big defense producers who had to scramble to get funds to pay workers when Federal payments were delayed.

While all this was going on, the government, and particularly the Federal Reserve Board, was fighting inflation with policies of ever-tighter money. These policies had already effectively provided the home-building industry with its own private recession as far back as 1956.

But these are primarily reasons for the speed of the drop. There were forces operating long before last Fall which gave some clues to a coming drop, and which influenced many of the economists on our annual Dodge outlook panel last October to predict a dip in business at some time in 1958.

One of these should be of direct interest to you: a decline in business plans for new factory buildings began to show up in our Dodge contract figures as early as a year ago in February. It persisted throughout the year, with a few exceptions and prompted us to warn in a publication last June that there might well be downward revisions in business plans for plant and equipment investment. There were other advance indications as well — the housing decline certainly was one of them.

All this is past, however. Where do we stand now, and what of the future?

As I was working on this paper during Easter week, I couldn't help thinking of something I had read about ancient rites of spring which still survive as pageants and games in some European countries. In these pageants, forces of winter, or darkness, combat against forces of spring, or light, for possession of a ball which represents the Earth. We could make something of an analogy with our current situation, where downward pressures are battling with upward pressures for possession of the economy. What are these forces, and more important, who's going to win?

Evil Influences

Among the evil influences, we would certainly have to put some of those I have already mentioned, because they are still operating:

(1) The decline in business investment, which is still going on, and which is reflected in such things as construction contracts and sinking business appropriations.

(2) The drop in auto sales, which has been showing no tendency to improve in recent weeks.

(3) The low level of housing activity at present.

(4) These and other downward pressures are reflected in other trends which make for still further downward movement. Among these subsidiary trends are:

(a) A drop in steel production, to levels 40% or so below last year.

(b) An 11% decline in total industrial production from the peak reached in 1957.

(c) A drop in freight car loadings of more than 20% from last year.

(5) And all these things are reflected in still further downward pressures, including, among others:

(a) Increasing unemployment, now about 5.2 million, or 7.6% of the labor force, and still showing no tendency to stop rising, if normal seasonal factors are taken into account.

(b) Increasing numbers of business failures.

(c) A declining average work week, which is now the shortest since 1939 (except for the V-J week at the end of the World War II).

(d) And as a result of all these things, declining weekly earnings of labor.

(6) Then, way down at the end of the line, as a final result:

(e) Total personal income has dropped about 2% since last year's peak.

(f) Retail sales are down a little, if the effect of the earlier Easter this year is taken into account.

Notice that at the end of the line, the percentage declines are quite small. This is natural, in such a sequence. The important thing is that they be *kept* small. If they increase, they could well spark further cutbacks in production, and start the process all over from the beginning.

So much for the forces of evil. Now about the good side?

Forces for Good

(1) I would list first among the good factors the lack of panic at practically all levels of the economy. (I wish, however, that people would stop conducting "force-yourself-to-be-optimistic campaigns." If a man should come into your office and say "don't worry," and then come back an hour later and say, "Remember, there's nothing to worry about!" and repeat the performance a few more times, you would certainly be inclined to ask "What is *he* worrying about?")

The lack of panic is reflected in several things:

(a) The relative stability of the stock market, which has comported itself nobly so far.

(b) The stability of the financial structure of the country, which is being conducted in a far more orderly manner than it has at many times of stress in the past.

(c) The high level of consumer purchases already referred to.

(d) The stability of prices.

(2) Among the good factors, I would also include the inventory situation. This could also be included among the downward pressures, since inventory adjustments certainly helped speed the downturn, but I include it here because this correction should be largely behind us. There are many analysts who think that businessmen over-corrected in view of the stability of sales, and will have to make the reverse adjustment of adding to inventories now.

(3) We still have, basically, a growth economy. Our population is 3,000,000 more than it was last year, the birth rate is still high, and we still have a pronounced "growth attitude." We are devoting tremendous sums to research and development. We have the national attitude that great things are ahead.

(4) And then, highly important among the upward forces are specific government programs aimed against recession. Practically all of these programs, incidentally, emphasize construction directly or indirectly. Construction will be their prime mover—and their first beneficiary.

In addition to government programs aimed to boost housing, urban renewal, highways and other public works, and defense spending, we also have the very powerful influence of a tax cut to consider. There is obviously considerable difference of opinion about the need for a tax cut in Washington. I would venture the opinion that we had better have the tax cut, and quickly, with some relief to corporations as well as individuals, in order to stimulate new private investment as well as new purchases. The effect of a tax cut will not be as immediate as some people seem to think, and this is one time when it would be safer to lock the barn door *before* the horse is stolen.

Now comes the problem of trying to assess the balance between the forces of good and the forces of evil. There is no neatly calibrated scale on which we can weigh these things and come up with a precise mathematical balance. It has to be a matter of subjective judgment, and yours may well differ from mine.

Bottom Not Touched Yet

I have to confess that in my own opinion, the downward forces have not yet been routed. I think they can be defeated fairly easily, but it will take more recognition of the problem in high places than I have observed so far.

We have not yet reached the bottom of this business dip.

But it is not going to keep on going down and down. We don't have the makings of a real depression. This is not another 1929. Why?

Sees No Real Depression

First, as I have said, we have a growth economy and a growth attitude. In 1929, we had the attitude (on a much more speculative basis, however) but the real growth of the economy was deceptively low, particularly from the population standpoint. Birth rates had been decreasing for years, small families were becoming popular, and we had virtually shut off immigration, which had earlier been a main source of growth. Currently, we have been, and still are, in a much more vital state.

Second, we have many cushions under the economy that we didn't have in the 1920's. Widespread unemployment compensation, universal use of amortized mortgages, deposit insurance, social security, better policing of stock market operations are just a few. And whether you like it or not, government activity is a much bigger share of the total economy than it was in 1929—and government activity should not be subject to the same cyclical forces that affect business.

Finally, we are much more sophisticated about our economy than we were then. We still don't know very much about what makes it sick, and how to keep it well, but we do know vastly more than we did in 1929.

As to immediate prospects, we have several opinions to choose from. There is still the "second-half club" which thinks things will start to boom late this year. There are others, very few in number, who think the slump will go on down and down into a depression. And there are some, including myself, who think that we will witness a bottoming out within a very few months, followed by a relatively mild upturn for another period of months.

Now let's look for a moment at industrial development prospects.

Looks at Construction

For reasons I have already mentioned, I think construction as a whole will have a relatively good year in 1958, in spite of the recession, but the short-run prospects for industrial expansion are not so good.

According to our Dodge statistics, contracts for new factory buildings have been running at just 50% of last year's levels. This is by far the sharpest decline reported for any construction category. Contracts as a whole are down about 10% from last year, but about half this drop is accounted for by factory buildings alone. Several types of construction, including highways and electric utilities, are actually running ahead of last year.

Addition of new productive capacity has probably gone a little too far and too fast in the last couple of years. One current problem is that a vast amount of industrial capacity which was planned years ago is just now coming into use, and 1958 will be one of the biggest years for completion of new capacity. Since we have a situation where a great quantity of new plant is coming into production in a recession year, it is hardly a wonder that current commitments for new factory buildings are at a low ebb.

There is nothing particularly alarming about the factory situation, because the history of industrial building is one of brief periods of high activity alternating with brief periods of doldrums. These fits-and-starts show up at two or three year intervals through all the construction contract figures for factory buildings since we first started publishing them in 1919.

Expects Factory Upturn Soon

An upturn in new factory building within a relatively short time is practically certain. This is insured by the continuing growth of the nation and its needs, and by the steady erosion of existing

*An address by Dr. Smith before the 33rd annual Conference, American Industrial Development Council, Atlanta, Ga., April 15, 1958.

capacity caused by time, and obsolescence brought on by innovation.

The timing of this upturn depends somewhat on what happens to the recession, and this in turn depends on some unknown factors, such as government actions now being debated. I do not know of any respectable body of opinion which holds that the current recession is going to be very long or very much more severe than it already has been, although it is by no means over yet. The upturn is probably not many months away, if all of us, including the government, recognize the situation as it exists and take appropriate counter measures. When the upturn comes, a pickup in industrial development will probably be leading the way, as it has in the past.

Back in college, I had an economics professor who used to keep a large crystal ball on his desk, with a smaller crystal ball alongside of it. When anyone asked, as they usually did, why one crystal ball wasn't enough, he always replied, "The big one is for long-range forecasting; the little one is only short-range."

I've always remembered this not because it was particularly hilarious but because it did emphasize something we are all too prone to overlook: there are two futures, long-range and short-range. Most of our attention is devoted to the short-range: how will next summer's vacation business be, will fall sales of clothing hold up, what's the outlook for industrial building in 1958, where is our next meal coming from?

I don't blame any businessman for putting first things first but it is unfortunate, because we are prevented from seeing the forest of the future by looking at the trees of today. The short-term outlook is here today and gone tomorrow; the long-term, by definition, is much more important because it will be with us for years to come.

Recessions are always short-term. The longest of them lasts only a small fraction of a lifetime.

We stand at the threshold of not one, but three new eras, any one of which could revolutionize our lives. One is atomics. One is electronics. And the most important is autologics, of machines that add thoughtpower to our already enormous horsepower. We are in the primitive stages of a more fantastic era of growth and change than even Jules Verne could have conceived.

Anyone who stands around too long musing about the outlook for 1958 is likely to find that history has left him far behind.

Named Directors

Sidney A. Mitchell, of New York, was elected a member of the board of directors of American Gas & Electric Co. at the annual meeting of shareowners in New York.

Mr. Mitchell had previously served as a member of the AGE board during the periods 1929-35 and 1946-53. He was formerly President of the investment banking firm of Bonbright & Co., Inc., New York, which discontinued its activities at the start of World War II. During that war Mr. Mitchell served with both the Navy Department and the State Department. He was Executive Director of the first Hoover Commission from 1947 to 1949 and served as a member of the second Hoover Commission from 1953 to 1955. Since then he has devoted the major part of his time to the administration of various trusts.

Eleven other directors were reelected at the annual meeting. They are: John S. Battle, Courtney C. Brown, Graham Claytor, Charles V. Graham, Clarence E. Hall, R. T. Haslam, Walter O. Menge, W. J. Rose, Philip Sporn, Charles H. Stockton, and Harry A. Winne.

World Bank 3¾% Bonds Offered at Par

Public offering of an issue of $150,000,000 International Bank for Reconstruction and Development (World Bank) 3¾% 10-year bonds was made on May 6 by a nationwide underwriting group of 179 investment firms and commercial banks headed jointly by Morgan Stanley & Co. and The First Boston Corp. The bonds, due May 15, 1968, are priced at 100% and accrued interest, to yield 3.75% to maturity.

The bonds are non-redeemable prior to maturity. The net proceeds from the sale will be used in the general operations of the Bank.

As in recent issues, the Bank is offering certain institutional purchasers the privilege of taking delayed delivery of the bonds on one or more quarterly dates from Aug. 15, 1958 through Nov. 15, 1959. Such sales will be at the public offering price. A commitment fee at the rate of ¾ of 1% per annum will be paid by the Bank to purchasers under the delayed delivery contracts.

The delayed delivery arrangement is expected to enable the Bank to coordinate a portion of its borrowing with loan disbursements and also to make it possible for the purchasers to arrange payments to suit their individual preferences in the light of their own projected cash positions.

This is the ninth issue of World Bank bonds to be marketed in the United States on a negotiated basis by underwriting groups managed jointly by Morgan Stanley & Co. and The First Boston Corp. The last previous sale involved $150,000,000 4¼% 21-year bonds in January of this year.

Giving effect to the present issue and to delivery of bonds under delayed delivery contracts, the Bank's funded debt will be $1,617,149,428 which includes United States dollar obligations of $1,416,977,000 and Swiss franc, Canadian dollar, sterling and Netherlands guilder obligations aggregating the equivalent of $200,172,428.

From its formation in 1946 to March 31, 1958 the Bank had entered into loan commitments in an aggregate principal amount equivalent to $3,587,547,893 to finance programs or projects in 46 countries.

With Bingham, Sheldon

(Special to The Financial Chronicle)

MILWAUKEE, Wis.—Charles M. Sheldon is now with Bingham, Sheldon & Co., 735 North Water Street.

Two With Walston

(Special to The Financial Chronicle)

MILWAUKEE, Wis.—Joseph N. Austrup and Horace D. Ward have become associated with Walston & Co., Inc., 210 East Wisconsin Avenue. Both were formerly with Merrill Lynch, Pierce, Fenner & Smith.

Small Business Will Disappear Unless Financing Is Obtainable

By THOMAS GRAHAM*

President, The Bankers Bond Co., Inc., Louisville, Ky.
President, Bankers Southern, Inc.
Former, Governor, and a Member of Federal Taxation Committee of Investment Bankers Association of America
Former President, National Security Traders Association

Investment banker describes small business as suffering not only from government indifference toward its problems but also as a consequence of aid extended to big business via tax and credit policy. Recommends three-part program in behalf of small business, to wit: (1) make equity capital more readily available; (2) provide an instrumentality by which small business may have more readily available good management and good management services; and (3) assist in promoting the liquidity of common stocks of small business "in the area served." Mr. Graham terms small- to medium-sized business a stronger bulwark than large industry in combating severe inflationary or deflationary pressures.

First, for the purposes of this discussion, I would like to offer these two definitions of the general areas of this problem of small business: (1) Equity Capital, and (2) What is small business.


Thomas Graham

Equity is the value of a property over all debts.

Small business is any business whose stock is not listed on any of the major stock exchanges. There are exceptions to the rule, including Government securities.

There have been much discussion and much debate over what is equity capital and what is small business, but in my opinion until we can resolve and agree upon a standard for these two areas we cannot achieve any substantial good for small business.

From the standpoint of hindsight, let us review the performance of the past quarter century of financial history as it bears upon the problems of small business. We can only marvel in such a review at the movements that have culminated in extension of credit and aid instrumentalities to almost all segments of the American economy. At all levels, the fiat of the government — state, local and Federal — has been used to assist business, labor, and financial units either through direct assistance by Federal agencies or indirectly by subsidies in the form of tax relief or rapid amortization programs.

This participation of government has resulted in a natural occurrence — big business, big labor, big farm and big government. Somewhere along the line, this trend must square itself with a fundamental belief not only of our Constitution but also of a common way of life shared in varying degree by all Americans —the Free Enterprise System— and its corollary political theory —equality of opportunity.

Sees Only Big Business Aided

If this is accepted in principle —that taxing and aid programs of the various state, local and Federal agencies should be applied with a measure of equality—then how are we to reconcile the fact that small business is in a present state of economic emasculation. In many cases, small business is suffering in a direct way from the very things that have been designed to assist business: credit, tax relief, amortization programs, etc. For these instruments have not been made available to small business in a general way because laws and traditions that implement the instruments pre-empt and restrict long-range equity capital offerings or management services.

Small- or medium-sized business has its tap roots imbedded deeply in the soil of the fundamental American political and economic tradition; but in the past two decades we have been so busy giving aid and sustenance to the highest branches that we have forgotten the roots. All or most of us have been guilty of the sin of omission in this area as our economy has grown bigger and bigger. We have forgotten that small business made this nation great in its beginning.

Many or most of us have been lulled by the efficiency, or supposed efficiency, of bigness. But this attitude is proper and excusable when we consider the overall scheme of things in a balance between what can best be done by "big units" and what can best be done by "small units" of business. This is not only a law of physical science, but it also is an immutable law of the natural order voiced by the discipline of the market place—economics.

We can, of course, view with pride and assurance those vast accomplishments in research and mass technological production of our large integrated manufacturing and production units. We might even gasp with or without mixed emotions at the organization efforts in the fields of labor, farm or government. In the main, these immense undertakings have served in the public interest—to implement the public good. But we suggest that these policies inevitably must—in extension—square themselves with the fundamental belief held in common by most Americans: the Free Enterprise System with its magnificent doctrine of equal opportunity to all.

Small Firms Ignored

Respect for these fundamental beliefs, I am afraid, have not manifest themselves except in a cursory and offhand fashion for small business. The fiat of government — whether it be Federal, state or local or the directives of the agencies concerned with the economic life — obviously have chosen to ignore the real needs of the small business community. These needs are essentially the same as those of any business or financial enterprise, however large. These needs have their own individual deviations which must be reconciled in principle as well as practice. These needs have been recognized by almost all levels of human endeavor as soundly centered in constitutional law and tradition. But in the market place —the market place of small business—they have been ignored.

These needs have been administered to in all groups in our society with the notable exception of small business. When the oil industry needed assistance, the taxing instrumentality in the form of a generous depletion allowance was the tonic administered. When labor was struggling to organize its masses of workers, a national labor act was injected as its insurance. Farmers have been given subsidies, parities, and soil bank programs. Big industry has received rapid amortization programs and other advantages.

You and your Committee, Mr. Chairman, are now facing the problem of the submergence of small business with vigor, courage and forthrightliness. Your endeavors cannot be other than successful when you have considered the volumes of testimony before you and the wealth of ideas and proposals set forth in the various bills now under consideration.

Suggests Three Fundamental Changes

Let me urge you, as a small businessman and as a sometimes spokesman for small business interests, to promulgate and adopt as speedily as good judgment and consideration dictate a program for small business that would do three fundamental things: (1) Make equity capital more readily available to small business; (2) Provide an instrumentality by which small business may have more readily available good management and good management services; and (3) Assist in promoting the liquidity of the common stocks of small companies in the area served.

The small businessman urgently needs help in obtaining equity capital, good management, and ready marketability of his firm's common stock if he is to escape the Charybdis of bankruptcy on the one hand and the Scilla of merger on the other. Unless something dramatic and drastic is done soon on behalf of small business, we surely can look for increased failures and a new rash of mergers of small business into big business to the point where Wall Street will control every Main Street in America.

The shocking truth is that the economic erosion of small business, if not halted soon, eventually will destroy our entire free enterprise system. We must act in concert to rebuild the equity capital and the confidence of the little businessman. Companies whose stocks are listed on any of the big exchanges have little if any difficulty in obtaining corporate financing, but the small businessman without listed shares is at a financial disadvantage. And without sufficient equity capital, management resources or marketability of its common stock, small business has only two courses to follow: bankruptcy or merger. The stock answer in Wall Street is, "Come back next week."

A good deal of my adult life has been spent in championing the causes of small business in our economy, and particularly the economy of Kentucky and Indiana. Small business is the greatest bulwark we have as a stabilizing factor in our economic system. Small companies always have been to me the kind of enterprises that may not be as alluring and dramatic as our "big business" corporations, but they provide an opportunity for individuals to practice the finest management for the interests of their stockholders and the communities which they serve.

Our Number One Concern

The development and financing of small business are of prime concern to all of us interested in the welfare of our states and our nation. As one Louisville business leader told me recently: "Small and developing business should be our number one concern as it is our number one problem. Big business, big labor, big government — this continual trend can soon mean the end of the American System and way of life as we know it."

It would perhaps be appropriate at this time to mention briefly the problems that a small company has in attracting either capital for the sale of its securities or in borrowing money from existing financial institutions such as banks. When a small company goes into the market place with its securities, it is competing with the larger companies that are able, because of their greater borrowing power, to attract investment money with a great deal more ease. It is, therefore, often necessary for a smaller company, in order to survive, to sell its stock at less than real value and to borrow money at higher than considered competitive interest rates. Furthermore, because of its size and relatively smaller capitalization, the smaller company does not have the added attraction of liquidity — or marketability — of its securities. The stock of a large corporation, for example, listed on the New York Stock Exchange in itself has liquid asset value acceptable to leading financial institutions as collateral. So raising additional capital or borrowing money is relatively easy for such a corporation. On the other hand, a smaller company with unlisted stock has little or no liquidity and lending institutions are reluctant to lend on such securities. Therefore, most smaller companies are compelled to issue senior debt securities, such as preferred stocks and bonds, at high enough interest rates to attract the major sources of equity capital.

Many regulatory agencies, such as Securities and Exchange Commission, Small Business Administration, Federal Trade Commission, Federal Power Commission, and Public Service Commissions, have recognized the basic inequality inherent in small business and have been of great service to small enterprises within the scope of their authority and when financial situations develop. But the scope of this authority does not extent to the vital areas of small business in a large number of cases.

Collapse of Local Markets

The fundamental problems found in local market places, like Louisville, is found in the fact that in 1938 there were 23 investment dealers while in 1958 there are only 11. Of this remaining group 7 are small local dealers and 4 are large New York Stock Exchange firms.

A recent study further highlights the testimony that I have given up to this point. It shows, in brief, that since 1946 the percentage drop-off of the securities traded in the local market of our area has exceeded 58%—this dissolution has occurred either through buy-outs, mergers or listings. The result and effect has been that during the past two years there has been an almost complete collapse of our local markets in Louisville, due to the fact that there was no liquidity for borrowing purposes in the securities of our area.

One point I would like to make here is that the massive unemployment presently in effect in our area is due, in substance, to the factor of the dominance in our area by several large industrial organizations which are prone to inventory cyclical recessional cycles.

The fact of the matter is that the policy of large industrial organizations in regard to labor is that, in the main, labor is factored as a commodity; while in small business labor must be, because of the investment therein, factored as an asset. This is not an ideological argument, but it is said as a practical analysis of the current unemployment situation in our region and, I am sure, in other regions of the country.

Large business necessarily, I suppose, must use their inventory excesses as a determining factor in employment practices.

Stronger Bulwark

I feel sincerely that a small- to medium-sized business is a much stronger bulwark during recessional periods than large industry, and anything that we can do to strengthen the small- to medium-sized business will be beneficial in combating severe inflationary or deflationary pressures.

In conclusion, may I suggest, that if we had the three built-in supports for small business—such as equity, management and liquidity of stocks—it is extremely doubtful if we would have had the present recession.

*A statement by Mr. Graham before Senate Banking and Currency Committee concerning proposed assistance to small business, Washington, D. C., April 29, 1958.

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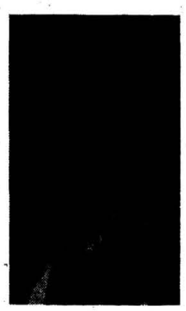

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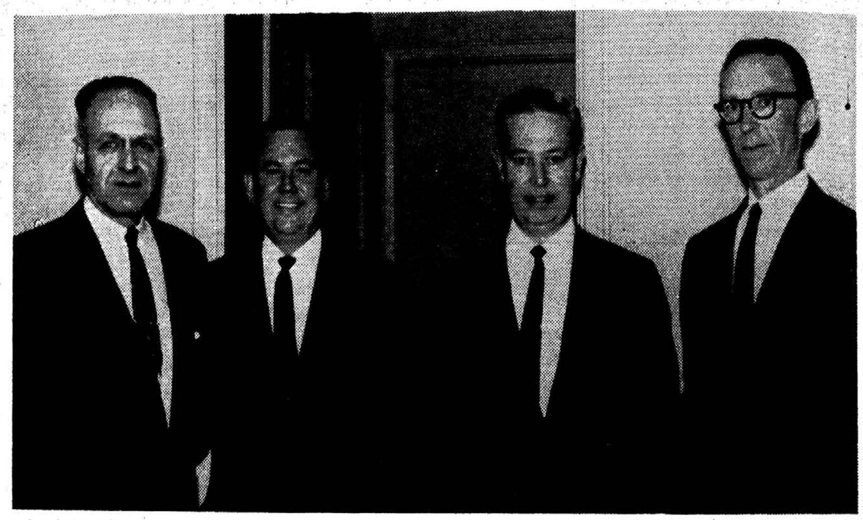

Col. Oliver J. Troster, *Troster, Singer & Co.;* Walter Haubert, *Jesup & Lamont;* Daniel Daly, *Jesup & Lamont;* Vincent Shea, *Glore, Forgan & Co.*