Annual Address of President Francis E. Frothingham — Finds Business Hesitant Because of Restrictions — Declares Our Constitutional System and Free Capitalism Interdependent — I. B. A. Not to Become Voluntary Association Under Maloney Act

"There is definite need for a halt if the capitalistic system and our democratic institutions are to endure," said Francis E. Frothingham of Coffin & Burr, Boston, in his address as President of the Investment Bankers Association of America, at the opening session of its annual convention at White Sulphur Springs, W. Va., on Oct. 26. "There is need for a surecase from uncertainty and fear," Mr. Frothingham continued, "if the profits are again to be made, that alone can provide investment funds." "Fortunately," he went on to say, "there are signs of a growing realization that government and business must be more mutually cooperative and realistic. It is high time that this should be so, as a proof of our ability to function under a democratic form of government." Earlier in his remarks Mr. Frothingham indicated it as his belief that "our constitutional system and free capitalism are interdependent," Mr. Frothingham during the course of his address also said:
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When everyone was apparently making money, and there was work for all, everything was well. Only when the collapse came did serious shortcomings in the business structure make themselves generally apparent. It was not a failure of a capital system, but a misuse of it. No one would dream of discounting that incredibly useful bit of business machinery, the limited liability company, merely because it has been misused. So, also, with the private capitalist system of individual initiative. But a situation had arisen such that the public interest demanded that something be done to restore the Government to its rightful position of the rule making body. But has it not overcome its job?

Indicating at the conclusion of his address that the Investment Bankers Association has "decided not to become a voluntary association under the Maloney Act, but to remain free and independent to take such position on questions as they arise," Mr. Frothingham added that the I. B. A. "will always do what it can to aid the capital markets, and to help eradicate the abuses that have crept into the capital system." His address follows in full:

The extraordinarily difficult times in which we are living accentuate the peculiar responsibility of the investment banker to society and to our national economy, and in what I have to say I shall endeavor to point out that responsibility as I see it, in the hope that our Association may not be negligent in meeting it. During the past year, in which I have been privileged to be the President of this Association, the sense of that responsibility has been growing on me, and I want to transmit something of my feeling about it if I can. To me the problem is much more than a merely domestic one, so I will ask you to bear with me if I seem at first to go somewhat afield.

Each year of the 26 years of life of this Association has held its problem for us, which were not as best they could be under the circumstances. But with the passage of a quarter of a century we can see that for many years our problems were of a more or less routine kind, or were seemingly so, and that they were met rather in the stride of business. We too little realized that their shadows lay down a path that was to lead us into confused and dangerous places. We walked, as it were, blindfold, lacking the far-sighted imagination that disclosed the future. When I say we, I mean not along this Association, but all business. The few that sensed the on-coming storm could not wake others to see that the brooding calm was ominous. So most of us did not foresee the catastrophe of 1929. Thereafter world forces, long germinating in the social moisde of the world, and which were set in active motion by the World War, were released with eruptive violence, as happens periodically in the history of man.

It is well to try to weight those forces, for they are of great concern to us. We should realize that the welling urge of peoples today, paradoxi-cal as it sounds in a world full of more mechanical contrivances for our comfort, pleasures and intercommunication than the world has ever before known, is for security in life, security in old age, security against the hazards of existence, hazards that in some unaccountable way seem to have multiplied with the opportunities that invention has provided. They seem willing to barter way the liberty, personal freedom, even their souls, to the authority that apparently offers them security. They are oblivious to the truth of Ben Franklin's remark that—

"They who give up essential liberty to obtain a little temporary safety deserve neither liberty nor safety."

But this urge is a most important aspect of the social revolution going on through the world, the true meaning of which for us in this country has the deepest significance.

In Europe, republics have given way to dictatorships; in Asia, imperialism is on the march; in the United States a rapid and threatening centralization of government is on its way. We have somehow become a world of enemies, in thought and action. The strains under which society is trying to function are terrific. Should it happen that the fabric of peace before long breaks, as I fear it will, what follows may set back civilization for years to come. Long and threatening shadows are being cast across the future—for all peoples in all countries. The dictatorial and imperialistic nations offer small contribution to world peace. How can economic systems based on the support of millions in uniform by the sweat of other millions under the lash of dictators, tending to pile up munitions of war; how can the thesis that the State is all, that minorities have no rights, that the dictator is the sole mouthpiece for all, contain anything but the ultimate degradation of society, anything to enable or advance it?

The acuteness of the strain of the past few weeks has been temporarily eased, but at what expense of more principle. The mutual incompatibilities between the dictatorial and the democratic principle of government remain unaltered, and it is difficult to see how real peace on this earth can come until the issue is finally joined. But the point for us to note is that democracy is on the defensive against the dictators' assumptions of omniscience, for its very liberties open it to the insidiousness of the propaganda of disturbing forces.

But I did not wish to imply, in referring to the centralization of govern-ment, that the purposes of the New Deal are the same as those of the dictatorships, for they belong in quite a different category. The aim of the one is advancement, the suppression of independent thought and action by terrorism, the expression of national power through force of arms; of the other the aspiration has rather been to correct abuses that had grown up in the business and growth in wealth of a free nation. The one is destructive, the other constructive. But curiously enough, in things so different, an underlying prompting in each is the same.
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i.e., the urge of the less privileged for security. In the dictatoriat countries the proletariat endowed to take control, for its own security, of the sources of production, and then, as must always be the case with mob action, one man had to lead, and dictate to, the mob, for the proletariat has not within itself the capacity to manage. In this country, dissatisfaction with things as they were and the same underlying urge for security on the part of the less privileged has speeded up a centralization of government. But with us, as distinct from the continental countries where individual freedom was little known, our people had grown up in an atmosphere of personal liberty that they drew in with the air they breathed. That was the American contribution, out of the centuries of Anglo Saxon struggle for personal rights. I mention this great difference because it seems vital to the issues before us. In this atmosphere of freedom we are likely to forget, in the search for security, that security and freedom are incompatible. All of us mean little of the other, merely speaking. The concern for us is lest the efforts hereto stimulate abuses, to protect and give security to the underprivileged, may not take the course of laws and regulations apparently desirable in themselves, so numerous, so intricate, so confounding, so imminenting into all private affairs, as to bring free democratic processes to a standstill. What we need to observe is that these regulatory steps, in themselves, and inevitably become increasingly authoritative, tend increasingly to break no interference, and become increasingly indifferent to means in the attainment of ends, so that public necessity sufers, and society degenerates. We appeal to the concern felt about the New Deal, i.e., that it may after all go the way of the dictatorship, and centralize too great authority in Washington. Over centralization of authority sooner or later means that the personal rights of the individual are sacrificed.

While pointing out this tendency, because I sincerely believe it exists and that its initial steps have assumed in this country a reality that is gravely disturbing, it is at the same time necessary to recognize that changes in methods of government are inevitable in a world that will not remain static, and that we would not have remained so if it could. With the growth of population and of an industrial economy certain increases in centralization of authority were of course inevitable. As James Truslow Adams has said: "Our entire history shows a steadily increasing concentration of power in Washington."

But the reason the issue is now so acute is that this concentration of authority has in the past few years progressed at such a pace that the shadow of its meaning is now discernible to all as it is lost across the future. An instrumentality of government have been set up that are well nigh pernicious, and authority in Washington is breaking less an loss of interference. We cannot be indifferent to the implications.

We must of course recognize that government is a series of compromises. Good government is the happy balance between contending ideas. So it behooves us all to see that the scales do not tend down heavily on one side, and that the checks and balances of our constitutional method be not chipped away in the heyday and excitement of striving for Utopia.

It is from perhaps a fair question to ask if this country is playing its part in demonstrating the virtues of democratic form. A free, constitutionally governed democratic country, if it would influence the people of other lands who are under the control of dictatorships, or are wavering in their faith in democratic forms, should present a front of peace, security and smooth working and successful business. If the United States cannot give such a demonstration it offers no helping hand to those in the mazes of authoritarianism. My own feeling is that we are not making the contribution to world difficulties that we should or that the peoples of the world have a right to expect of our democracy. The number of our unions remains great; the number being succored by Government is appalling: our debt and the unbalance of National budget mount threateningly; our business burdened by complicated taxes and increased costs, shows less and less of profit; our Government competes with its citizen; our National morale is at a low ebb; and our people are divided in hostile camps. Yet no voice is raised to dignify labor, to arouse people high and low to a sense of their individual responsibility to the collective whole. Either are people being taught to turn to Government for their every need, to demand the rights of indulgence, so that the non-worker is cared for by the worker. All this should not be a product of the democratic method. If it is inevitable that it should be, then democracy and the rights of free men must give way to collectivism in some form or other. Democracy must prove its political capacity if it is to be copied as a method of government.

In what I have been saying I have endeavored to draw a picture, however inadequate, in order to place this Association in the context of today's events, as I interpret them, for the place this Association occupies, small and inconsiderable as it may seem at first glance, yet seems to me to be fraught with possibilities of social service of the first order. The next step draws us immediately into this current of events.

The system of finance which is a part of the blood stream that has nourished the growth of our democracy is called the "Capitalistic System," a term that unfortunately curies with it an unjustified stigma, an inference somehow of sinister aggrandizement. The term, as a matter of fact, means nothing more than a recognition of the rights of private

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as wisely said while expressing his belief in our capitalistic system, that if private capitalism does not maintain a high standard of living, and does not provide physical comforts, and does not provide a large measure of human freedom, then capitalism does not justify itself and will not continue. The thing for us to recognize is that both democracy and the free capital system are on the defensive.

And now we have reached this Association, and the part that it should and can play to the struggle and distorted picture. As I believe, our constitutional system and free capitalism are interdependent. The investment bank has been one of the essential elements in the functioning of the capital system. The investment bank has been instrumental in raising from the wealth of the people the great part of the funds that have been demanded by their productive activities and that have made this country so prosperous. Rich nation it is the service of so vital a character that it places on the investment banker an almost crushing responsibility, to the threatening dislocation of our system.

I have envisaged, become realities, the investment banker must share the responsibility. To say thinking, though, it is not a question of sharing the responsibility for default, it is a call to every investment banker, large or small, alone or in association with others, to act and build that the investment banker has to go forward to a constructive contribution to a better administration of the free capital system so that it can do the things in the public interest that it is capable of doing. It bears repetition to say that the essence of the free capital system means the continuance and success of our democratic form of government, and that the success in turn strengthens our democratic-mindedness of the world to meet and to resist successfully the dictatorial principle. I cannot feel that this is a fantastic responsibility that I have placed on the investment banker. Others also share it with him, but he cannot escape his share.

Above all, it should do its utmost to correct and do away with the abuses, often subtle and difficult to see, that have crept into our capitalistic system. Fortunately, there are no existing laws and added in its accomplishment by the passage a few years ago of the two Securities Acts and by the inauguration of a Securities Exchange Commission, set up to administer them. Those laws have constructive purposes that are far-reaching and important. No one, I am sure, who is a convinced collectivist or liberal would want to see these laws or their administration are perfect. The corrections envisioned under them should be by a gradual, evolution process. The laws themselves will need amendments for the more efficient functioning. The danger on the one side is that these laws may be too rapidly speeded up, on the other, that the spirit and the objectives of the new laws be thwarted the corrective purpose.

The purpose of these laws is to correct abuses in the capital machinery that work against the public interest. We in the investment banking business can have so qaurrel with that objective, it should be the aim and objective of everything we do. No one should want a well-employed, contented, happy, prosperous country, and we know that this can be brought about only by effective and honest control of the money supply, that we should do all we can to root out malpractice wherever it appears. We have been the constant effort of our Association. We welcome these laws and this Commission to help us raise the level of this mighty business of bringing capital to capital's need.

But the correction of abuses in the business of buying and selling securities is not all that we are interested in, for there are good practices that are to be protected, as well as bad ones to be emulated in all business. And also, outside of fraudulent and manipulative practices, there is a field of meritorious public service. The public interest, the public money, are tied up to which we cannot be indifferent. Such, for instance, are unfriendly, competitive practices, or overcharge of services of one sort and another, an indifference to the rights of the public, to the rights and welfare of labor, an inadequate sense of inner responsibility to enter contacts that makes or breaks those relationships to a consuming public on which good business depends—practices that have no inherent fraudulent intent, but which nevertheless may assume proportions that bring business into ill repute. For in our increasingly complicated existence an increasing number of businessmen are buying and selling securities, whose conduct and responsibilities are such that we are not perhaps directly ours, they are yet of great concern to us, because we can see that these are not the kind of business in which we can have any indorsement of the purposes for which funds that we raise are used. I would merely point to the case of the present great amount of public money in the pocketed one, but should be of the broadest, and that our opportunity to aid in the valid constructive use of the capitalistic system is great because we are for the public interest, that our position to aid in the development of capital structures that will best meet the needs of today and those in the future is central. We have in line with our position the responsibility for the development of a financial structure so complicated and so top heavy that it is bound sooner or later to fall, and we should be unwilling to undertake the purpose which we believe to be intemperate to the welfare. We owe a few more government to the public of tomorrow to advise, to warn, to strive to make a wise resistance to practices that are unseemly. We have learned from the experiences that are now upon us that fixed debt is an underlying cause of our troubles, and that the issue of senior securities has so means always given to the investor the protection to which he was properly entitled. But there is no need to expound on this, for we all are sensitive to our responsibilities. Suffice it to say that we should have the courage to bring to the task that should and ought to be in the realm of finance.

We will at time undoubtedly be sincere differences of opinion between among ourselves and as I believe between this Association and statutory and law-making authorities in regard to particular abuses, their extent or importance, or as to the best method of meeting them, but if each side is considered with fairness and respect of the other, I think that the objective of each ought to be the same, a meeting ground can usually be found. The numbers of our Association, on the one hand, must always have in mind that the business of buying and selling of securities is enormous and country wide, but, of course, that sources of information, the authorities and the breadth of their responsibilities are entitled to the greatest respect and consideration. On the other hand, the business is close to its daily problems, and may sense with greater clearness the unfortunate reactions of particular rulings or suggested laws, so that we may feel obliged to press points of view that may oppose those of other State or Federal bodies. Only we hope that such opposition may be accepted with the same spirit in which it is made. I trust this Association will never be led into opposition for more opposition's sake; any position taken must be governed by our responsibilities to the public. We in the investment banking business are middlemen, and as such we must give an absolutely correct advice to our clients. It is not our business to make ventures, but to serve our clients.

That does not preclude us from taking a stand in our own interests, and we will often do that, the proof being, for example, in a number of cases, to show that what is in our interest is in the public interest.

Let me give two illustrations of what I mean by sincere differences of opinion that were important matters of concern to us during the last year. As you know, the Maloney Act was recently passed with the pur-
pose of regulating cf. the counter-market. From the beginning we recognized the desirability of such regulation and supported the idea of a voluntary association. This work has effectively developed rules of fair practice under the NLA, the outgrowth of which has led to the present as the work of this Association. In conferences with the Securities and Exchange Commissioners and Senate Majority we recognized the need for such regulation. This work is not entirely satisfactory, for it seems wise to cooperate and to adjust the differences as we went along, rather than face cooperation, that was our original idea of the present conference. The fact deserves emphasis. We worked for a good bill, not against a bill. We used every effort to work in harmony with the Commissioners.

When finally negotiations with the Commission could get no further, our Board of Governors agreed with our special committee that the acceptance of these issues particularly would be helpful in obtaining the support of the industry and in forming national associations, and that they should be pressed before Congress. These had to do primarily with provisions of closure. This was one of these cases where the banking committee was not involved; there was no sacrifice of the public interest. There could be no objection to the imposition of full penalties for willful, deliberate violations, but we did feel that where only minor unintentional or improper departures were involved, such facts should be recognized. We felt particularly with regard to the penalty of conviction, that this should not be invoked except when fraudulent intent was involved. Otherwise reasonable defects, such as negligent or unnecessary delay to individual holders, whose reputation and capital might be seriously impaired, with corresponding disadvantage to the public.

After effort made by our membership to explain to Senators and Representatives what the meaning of our committee was, and after hearings before committees of Senate and House, and those positions also being pressed by other independently created groups, the bill was finally passed with more of the important suggestions substantially met. What we did was sincerely done by sincere men.

Another illustration is the Berkley, or Trust Indenture Bill. The American Bankers Association, through its committee, had withdrawn its objections, yet the principle concerned affected the bankers' position as trustees had been accepted. Nevertheless, certain important banks sent us a statement urging opposition to the bill of the American Bankers Association. They did not believe in the bill before the Committee of the House. In this case Congress adjourned without finally considering the bill. Thereafter, again, were fundamental differences of opinion, though as before, there was no desire whatever to avoid corrections of real abuses that had crept into this business. The climate, however, was such that the definitions in the bill as to what involved collusion interests were so little agreed upon in the Senate that there was a feeling that the bill was not helpful, as well as in themselves not practically preventing the practices condemned. But especially we were concerned by the objection in principle to the provision that “the collective vote” of the bondholders might be used, also that the bill as a whole threatened a serious and unnecessary slowing down of the normal processes of the capital market, when every urge was rather for freeing them. The Securities Acts are based on the “full disclosure” theory, a sound theory designed to put investors on notice in advance of an offering. But this bill took a long step into a new application of regulatory theory, in setting up the Commission as an “approval” body, substantiating its judgment for that of both borrower and lender. Though it might be argued that “approval” in this case was somewhat circumstantial, yet the principle once accepted, there could in the end be no limit to its application. In the bill as written the Commission is made a party to the writing of any important part of the company contract, while at the same time it is enumerated of any responsibility for the quality of the securities resulting. In over a score of instances it determines provisions of every indenture affected, guided only by its own conclusions as to what it thinks is "in the interest of investors." Mr. Allen C. Throp, General Counsel for the Commission, speaking before the Annual Convention of the National Association of Corporate Counsel in October said: "I have already referred to the disclosure theory upon which the Federal Securities Acts are based. . . Our Union, therefore, is without discrimination to pass upon the ultimate question of whether the securities and the provisions of the Trust Indenture Act are, from the point of view of the investor, fair and reasonable. This is the question which the Act is designed to answer. In the light of the standards of the Federal Civil Service Act, which is the law under which the Commission is being put in operation, it is apparent that the question of the limitation, proper as it is, makes it urgent that the statute evacuate constant vigilance, in the light of the conditions of the times where it does not reach."

Here, again, we would emphasize that our efforts were not to defeat the passage of any bill, but only to give opportunity for a further consideration of the facts as they should be taken.

I might also mention the fact that the Chairman of our Federal Taxation Committee has been so especially prominent among Congressmen committees last year in his attempt to get a law for the Government, which the Association thought the central problem, the unprofitable and unlimited profits taxes were not only based on sound theory but were devoted primarily to the purpose of raising any idea of company taxes, and to wipe out the menace of raising revenue.

The banks have been asked to indicate the responsive attitude of this Association to the correction of malpractices and abuses in the business of issuing and dealing in securities. This Association has no inside knowledge, and it is uncontrolled by any inner group or any private interests. There are no positions to its board of Directors or anyone. The qualifications for its membership rest on what is perhaps a unique fact among associations that in the daily conduct of our operations we are continually doing business with one another and repeatedly forming groups on a partnership basis. Not one of our many committees appointed during the past year has had the representation of a whole, and been beyond the possibility of domination, either by any special interests or by any section of the country. The Association seeks advice from its members the entire over from those with broad and those with limited experience, and selects its course with such wisdom as it has. It desires and wishes to serve the public interest, but it can only do so by arguing its positions, and by carrying its convictions, when necessary, to the halls of legislature, whose members are those to whom the arguments of the citizens they represent.

This brings me to a most important aspect of the situation of our place in it. Broadly speaking, there has for some time been a flow of new capital, the capital that employs men. From an average of $5,000,000,000 of new capital raised annually in 1924 to 1929, this has fallen to only $50,000,000, or 1-10th, for 1929 to 1937. There has been, however, a large amount of refunding, made possible by artificially maintaining low rate money market, which, while having a disturbing influence on securities markets, has cut out the new capital for old. But there is still little information of refunding to the public, it is, as a vacuum to which I mean that industry cannot be forced to borrow, nor can available funds be forced into investment. With all the good will in the world, investment banks alone cannot make the capital system function. Its functioning is a result and not a cause. To make it work there must be both willing sellers and willing buyers. The question is, why has not business set its productive machinery in motion? In the first place, are we not perhaps assuming too much in expecting business to snap back where it need to be and to go on increasing from there? Is that not an unreasonable expectation? Is it not more likely that the resulting production of the past was too rapid to be sustained? Also, it was perhaps in high prices reaching a major activity of adding a new country, such, for instance, as the expansion of railroad mileage, which have now largely ceased. Then, too, a factor which has played against rapid business recovery is that we have too much aided former international customers to obtain for themselves rather than to buy from us, as a result of our sales to them of goods and services, a business which temporarily added to our earlier prosperity. The doors of international trade need to be reopened.

But even if these corrections of our anticipations of business recovery are made, business will not recover beyond all justification. The reason, I believe, for the long continued stagnation of business and for this vacuum in which the investment business is struggling to be useful and, perhaps, to be found in the simple fact that the impetus back of business is of human origin. The legal entity, the corporation, is in itself a dead thing. Human
effect along can give it life. The human being engages in his activities with eagerness and zest, he builds and spends and takes commitments for future only when he is confident of a relative permanence of the conditions surrounding him. And he looks to government for those conditions of stability. That statement is made with no desire to shift responsibility, but I think it must be the fair conclusion of an impartial examination of human nature and of the facts.

After the strain, both financial and mental, of a long depresion, during which Government has been trying to meet the situation with varying degrees of success and failure, we are all become suspicious, persons, and our nerves too much on edge, with governmental efforts that have been too many and too too constant to keep up with. Business is in full sympathy with efforts to correct abuses and to balance the productive forces of our national activities. It wants to see labor employed and protected. Business wants a contented, happy, prosperous people, and it needs just that for the successful conduct of its efforts. We are all anxious to cooperate with Government to that end. But when all that is said, and said in the utmost sincerity, business still feels the greatest concern and hesitancy to venture, in the atmosphere of restrictions and penalties that confront it. While recognizing and applauding the awakening of the National conscience to many important needs, yet thoughtful people, view, for instance, with concern, the continuing growth of the public debt and the budget deficit and the constant use of deficit financing: the political and human implications in the administration of relief; the constant making of grants, loans and subsidies of public funds; the increase of bureaucratic control; and the denial of the use of the mails and other instrumentalities of interstate commerce, as well as the imposition of taxes for purposes foreign to any implications of the use of those authorities when originally delegated to the central Government.

But no better statement of the fears and concerns of business has been made than in this quotation, from the testimony of Mr. Lurie in Washington early this year. After stating that there was ample financial credit to support a great business activity, he said:"The single missing element is a feeling of security—a belief that money can be spent or invested without confiscation of reasonable profits by inordinate taxation, or that it can be lent subject to some uncertain change in the value of money; that there are to be no abandonment of the sound currency principles of our past; that protection will exist in the existing business pattern or a general governmental hostility or governmental interferences in business operations or enterprises or commerce.

There is now, I realize, a sense of relief from the fear of imminent war, and the spending program of the Government is having its effect on a great business activity, may it be more buoyant, but people are deeply, and I think fairly, concerned with the fear that there are but passing symptoms and that the day of reckoning is still to be. As I have said, all applied waking the public conscience to the need of the major corrective envisioned, but we fear that the moment of pressure during the next few years is at least needed for a half century if the capitalistic system and our democratic institutions are to endure; there is need for a success from uncertainty and fear if it is to be a base.

Fortunately there are signs of a growing realization that government and businessmen can no longer be merely cooperative and realistic. It is high time that this should be, so as a proof of our ability to function under a democratic form of government.

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There is another side to this picture. Government and the people found themselves up against a great body of opinion that was becoming insurmountable. When everyone was apparently making money, and there was work for all, everything was well. Only when the collapse came did serious shortcomings in the business structure make themselves generally apparent. It was not a failure of a capital system, but a misuse of it. No one would dream of discontinuing that incredibly useful list of businesses, the limited liability company, merely because it has been misused. So, also, with the private capitalistic spirit of individual initiative. But a situation had arisen such that the public interest demanded that something be done to restore the Government to its rightful position of the rule making body. But has it not overcome its job? As President Roosevelt himself said about a year ago: "There can be no stability for peace while within nations or between nations except under law and moral standards adhered to by all."

The next step is to look toward the Act. Many issues have been brought to us during the past year, and many will tax our best thought during the coming year. The question of what not and what shall be decided over the sufficiency of investment banking capital that I asked the breaking institution if it would do as much or as quickly as the sufficiency of available capital, and of investment demands. This report should be available for consideration before the next session of Congress. We have worked out a plan under which the municipal section of our business, as distinct from the corporate section, is set up as an arm of the activities of the Association. A Municipal Divisions Council of seven has been authorized by the Board of Governors, with independent powers, to make the municipal section of the industry that it may not speak for the Association as such unless so authorized by the Board of Governors. This is a step forward, and coupled with the efficient services of Jules D. Smith, our Municipal Secretary, puts this Division in a position to handle its affairs efficiently and effectively. Also, much thought and time have been put on the questions of revising our constitution and of modifying some of the methods of election of governors and officers, all of which will be reported on later by the appropriate committee. Questions of segregation, of separating undertakers, of doing with Banks and the like, are being considered. The Act as a whole will be put on the lines of administration of the Act will continue before us. As I have said, our best thought will be determined. Never before have so many of our members, and of our organizations, been so well informed to act and to consider.

J. P. Wenchel
Internal Revenue Bureau

Speaking in support of the Federal Government's proposal to end tax exemption privileges as to State and Local Obligations, John Philip Wenchel of the Internal Revenue, stated before the convention of the Investment Bankers Association on Oct. 26, "that the language of the legislation is clear to the interpretation of the Supreme Court. If the words which he has used can not be deemed to be beyond the limits of the Constitution. It may be noted here that President Roosevelt's recommendations were contained in his message on March 25 last, referred to in the "Chronicle of April 30, page 2777."
Mr. Wenchel declared that "it seems that economists generally have regarded tax-exemption privileges as wholly unsound in principle and as a rational system of graduated rates of income taxation." Mr. Wenchel further said:

It is extremely important that our economy have an adequate supply of "risk" or "enterprise" capital. There is at the present time no shortage of senior capital but there is an acute shortage of risk capital. The most pressing object of risk capital is the savings of individuals in high income brackets, but the policy of extending tax exemption to public securities attracts much of this capital instead to a practically reckless field which might much better be filled by the savings of persons less able to afford to take such chances. If the tax exemption privilege were eliminated from future issues of public securities, we might expect, over the next generation, a gradual reduction of the substantial proportion of the proceeds of such securities now held by individuals in the upper income brackets. Thus, it would appear that the effect of the existence of tax exempt bonds upon the business life of the country is decidedly bad.

"The statement is made by Mr. Wenchel that little can be added to the "report of the study which the Department of Justice in 1917 made of the history of the Sixteenth Amendment." He likewise stated:

The report demonstrates that the basic idea behind the movement for the income tax was the Federal Reserve System, heavily weighted with consumption taxes and so greatly at variance with the principles of all who pay, should be modified to a deduction for savings of an income tax which would permit wealth to pay taxes equal to its ability... "The object was to impose a portion of the tax burden on the income of wealth or invested capital. There was no suggestion that any type of income should be considered immune.

Mr. Wenchel in his final comments on the subject said "without destroying the ability of the respective governments to carry on their functions, the Court has already sanctioned the proposal. In the history of the Sixteenth Amendment." He also said:

While there has been during the past 100 years about the so-called implied reciprocal immunity doctrine. Notwithstanding this, the topic has not been exhausted. The doctrine has been said to exempt taxation by the Federal government from the state taxation for the same income, and the compensation paid State and local officers and employees and to exempt from state taxation Federal officers and employees. To the practical effects of these exemptions there have been such to occur in several of the President in recent years to urge their adoption. So also, respective Secretaries of the Treasury (1) under successive administrations have recommended action to end tax exemption privileges for the reasons that they are economically unsound and, from a governmental aspect, unnecessary. The efforts to end these exemptions culminated in the President's message to the Congress of April 25, 1936, recommending the taxation of income from the bonds of the United States and the compensation paid State and local officers and employees and the giving of Congressional consent to the taxation by the States and localities of interest on future issues of Federal obligations and the compensation paid Federal officers and employees.

This recommendation has stimulated much discussion of the legal aspects of the problem, in which I, as well as many others, have taken a part, that is not too difficult to respond to. This statement includes, in the more remote sense, the sense of the word, that the current tax-exempt proposition merely existing at present is not adjusted to meet the needs of the public. It appears that while the President's message recommends is within the limits of the Constitution.(2) I shall endeavor to give the President's message presently is not the time to indicate some of the evil economic consequences of continuing the exemption privilege.

It seems that economists generally have regarded tax-exemption privileges as wholly unsound in principle and inconsistent with any rational system of graduated rates of income taxation. In addition, there is a considerable amount of public indignation against continuation of the privileges. There is, of course, opposition to the President's proposal that the President's message is, however, from persons who should not be found in the ranks of the objections. They can be the expression of a misunderstanding of the nature and effect of the proposition. As for them, a full and impartial examination of the proposition should serve to clear up any such misunderstanding. However, I am not at the present time willing to put a halt to the opposition of others—those who do not want to lose the special privilege which they now enjoy.
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...senior capital but there is an acute shortage of risk capital. The most promising source of risk capital is the savings of individuals in high income brackets, but the policy of extending tax exemption to public securities attracts much of this capital instead to a practically riskless field which might be filled by the savings of persons who has been able to afford to take a chance. If the tax exemption privilege were eliminated from future issues of public securities, we might expect, over the next generation, a gradual transfer in use as risk capital of a large proportion of the proceeds of such securities now held by individuals in the upper income brackets. Thus, it would appear that the effect of the existence of tax exempt bonds upon the business life of the country is decidedly bad. This conclusion seems to be confirmed by the recent report of the Twentieth Century Fund, as summarized by the press, as well as by analysts generally.

I come now to a brief discussion of the legal aspects of the problem. At the outset, I shall merely mention that I followed in the light of the courts' traditional attitude, and more particularly its present-day critical attitude toward constitutional doctrine. It would appear that the courts would welcome the opportunity to reexamine the broad outlines of the implied immunity doctrine. All of these factors which in other recent cases impelled reconsideration and reevaluation of the doctrine there involved are presented in connection with the instant case. (7) This would seem to demonstrate that the court might be willing to adopt some sound ground, or grounds, for actually reexamining or reevaluating the doctrine in question. I attempted to analyze in a case which presented the occasion as to do. I attempted to analyze in a case which presented the occasion as to do. I attempted to analyze in a case which presented the occasion as to do. I attempted to analyze in a case which presented the occasion as to do. I attempted to analyze in a case which presented the occasion as to do. I attempted to analyze in a case which presented the occasion as to do. I attempted to analyze...
Concern Evidenced by Investors Over Proposal of Federal Government to Levy Taxes on Income from State and Municipal Bonds—Regarded as Threatened Invasion of State Rights Says David M. Wood

The fact that investors have become uneasy as a result of the proposal of the Federal Government to levy taxes on the income derived from State and municipal bonds was pointed out in a recent address before the Thometson, Wood & Hoffman of New York, at the annual convention of the Investment Bankers Association on Oct. 26. Because of their canceled a National of the United Associations—"to protect themselves against this threaten- is, sovereign rights. According to Mr. Wood, the Department of the Federal Government power to levy taxes upon subjects which pre- viously were not within the scope of its taxing power." Mr. Wood argues that the States "are not, and never were within the scope of the taxing power of Congress, for the same reason that an Ambassador, accredited by a foreign country to this country, is not subject to such taxing power." He further asserts that under the Department of Justice interpretation of the Sixteenth Amendment "the Federal Government would be in a position completely to control the finances of the States and of their municipalities, and through the exercise of this power no State would be able to exercise any of its reserved powers, without the approval of the Federal Government." He further declared that "the independent judicial power of the federal, which have been so care fully set up, could be destroyed over night." The same subject was discussed at the convention by J. P. Morgan, head of the Bureau of Internal Revenue, and his remarks are given elsewhere in these columns. The address of Mr. Wood follows:

Investors throughout the country have become somewhat upset regarding the proposal of the Federal Government to levy taxes upon the income derived from State and municipal bonds. Indeed, the very existence of this proposal, has become so much publicized, that it has been the subject of great interest and discussion among the various States. The issue is one of great importance to the States, and without regard to any crisis or enumeration.

The Federal Government has the power to levy taxes and collect taxes on income from whatever source derived, without apportionment among the several States.
Since the ratification of the amendment, the courts have steadily declared that its sole effect is to permit Congress to levy an income tax, free from the requirement of an apportionment of the levy among the States according to their populations, determined by the last Federal Census, and that it was not intended to extend the taxing power of Congress to new or previously excepted subjects. Conforming to these decisions, the Supreme Court of the United States held, in the case of National Life Insurance Co. v. United States, 277 U. S. 569, that, notwithstanding the Sixteenth Amendment, a tax upon the income derived from State and municipal bonds is unconstitutional. In effect, the Court has held that the Sixteenth Amendment must be read in connection with the entire Constitution and that it was not intended as a new grant of power, which might be exercised by Congress without regard to the other provisions of the Constitution in which it was incorporated but was intended merely to avoid the necessity of apportioning an income tax among the States according to their populations, as the Constitution had previously required. This interpretation of the Sixteenth Amendment has been steadily adhered to by the Supreme Court of the United States, in many decisions, since it was first called upon to construe the Sixteenth Amendment.

The Department of Justice now contends that the Sixteenth Amendment must be interpreted as a new grant of taxing power, not subject to constitutional limitations therefore imposed upon the taxing power, and that it conferred upon the Federal Government power to levy taxes upon subjects, which, previously, were not within the scope of its taxing power. It is admitted that the courts have consistently held that this is not a correct interpretation of the amendment, but it is contended that those decisions are erroneous and were rendered without a consideration of all of the facts. Let us, therefore, examine the facts.

Prior to the ratification of the Sixteenth Amendment, Congress, unquestionably, possessed the power to levy an income tax. This taxing power was plenary and embraced all conceivable forms of income taxes, but the Federal Constitution contained two important limitations upon its exercise. One was that direct taxes must be apportioned among the States in proportion to their population, determined by the last Federal Census, and the other was, that taxes other than direct taxes, must be levied uniformly throughout the United States. This latter limitation did not preclude the possibility of classification of persons and properties for taxation, but merely prohibited geographical and personal limitations upon the tax, or upon any class of property or persons.

What then, was the necessity for the enactment of the Sixteenth Amendment? The reason was, the Supreme Court had held in the case of Pollock v. Farmers' Loan & Trust Co., that a tax levied upon the income derived from certain specified items, such as life insurance and annuities, was not a direct tax and therefore not subject to the requirements of the Seventeenth Amendment. The Court further held that this was a power of taxation which is not possessed by the States, but is subject to the requirement of apportionment among the States, as the Constitution required.

The facts before the Pollock case were:

(1) That a tax levied upon incomes derived from businesses, professions, incomes, or individuals, which were within the levying power of the States, but which were not subject to the requirement of apportionment, but, of course, subject to the other constitutional limitation, the tax was direct and subject to apportionment.

(2) That a tax levied upon income derived from real or personal property, which was levied by the States, but which was not within the levying power of the States, was not a tax upon the income derived from real or personal property, but was a tax upon the property itself.

That under no circumstances, whether the tax was apportioned or not levied uniformly throughout the country, could a tax be levied upon the income derived from State and municipal bonds.

Because this decision rendered impracticable the levy of a tax upon incomes derived from invested capital, President Taft recommended to Congress the enactment of the amendment in order to authorize the levy of an income tax, free from the requirement of apportionment. The Amendment was accepted by both branches of Congress with comparatively little debate. It was not until the Senate had passed the amendment that it was introduced into the House of Representatives and there was a debate of some length. The amendment was then enacted and became a law.

The legislation was based upon the assumption that the amendment would be interpreted as a grant of power by the Federal Government to levy taxes upon incomes derived from State and municipal bonds, and that it was not intended to authorize the levy of an income tax, free from the requirement of apportionment.

Among the amendments seeking to limit the Federal taxing power, few were more important than this amendment. It was not until Governor Hughes of New York expressed the view that the amendment would permit Congress to levy taxes upon incomes derived from State and municipal bonds, and that it was not intended to authorize the levy of an income tax, free from the requirement of apportionment.

The amendment was therefore, adopted by Congress, and became a law.

Several public men of the time shared Governor Hughes' views, but many others of equal prominence differed with him, and many text-writers denied that the amendment had any such effect. Among those was Professor Belknap of Columbia University, a noted authority upon the subject of taxation.

Summarizing the facts we find that while the Amendment was pending before the States, no member of Congress appears to have stated upon the floor of either House, the tax on the income derived from State or municipal bonds, but that among public officials, lawyers and text-writers, there was a difference of opinion upon this point.

In determining what was the purpose of Congress and of the people of the States, in enacting the Sixteenth Amendment, we should consider not only the difficulty which was proposed to be remedied by the amendment, but also the consequences of such an amendment, as considered in the light of the entire Constitution. The Department of Justice contends that the Amendment is free from ambiguity, and therefore, that the word "taxes," as universally source derived mean exactly what they say and authorize Congress to tax the income of any person or corporation, whether it be by the States or by Congress. On the other hand, it is contended that there are certain incomes, which, obviously, were not intended to be included within its scope—that there are certain inherent limitations upon the scope of this so-called unambiguous language. Obviously, Congress could tax incomes under this Amendment only when the power to whom the income accrued, or the property or business from which the income was derived, was subject to the jurisdiction of the United States. It certainly would not be contended that Congress could give the power to levy taxes upon salaries and incomes wholly without the jurisdiction of the United States. Would it be contended that Congress could levy a tax upon the income earned by a foreigner prior to the time he came to this country and became a naturalized citizen? Was it not true that the Seventeenth Amendment denied Congress the power to tax the income of a foreign visitor? Was it not intended to apply to the salary of an Ambassador accredited to this country by a foreign government of taxes? The Amendment is subject to the implied limitation that Congress can levy taxes only upon persons, proprietor, or business subject to its taxing jurisdiction.

But the States have never been subject to the taxing jurisdiction of Congress. The States are independent sovereigns. In the case United States v. Jones & Laughlin Steel Corp., 304 U. S. 1, 58, the Supreme Court of the United States said:

"It will be admitted on all hands that with the exception of the power surrendered by the Constitution of the United States, the people of the several States are absolutely and unconditionally sovereign within their respective territories.*

This has been constantly reiterated by the Supreme Court of the United States. It is further declared that the States are sovereign, that it may not be used without its consent. However inconvenient it may seem to the National Government, the obvious fact is that the Constitution of the United States did not create a highly centralized national government, but, on the contrary, created a Federal Union of sovereign States, each possessing its own government. The powers which were not delegated to the Federal Government in the language of the Constitution, and which are not enumerated, are reserved for the States, respectively, or to the people. To say that a sovereign is a subject of taxation by another sovereign is a contradiction of the essence of sovereignty. Such a power would have been amased at the assertion of any such power on the part of the Federal Government.

* It is well to observe that the phrase of the Constitution, 'sovereign within their respective territories,' is so widely interpreted by the Supreme Court of the United States.
The States, therefore, are not, and never were, within the scope of the taxing power of Congress, for the same reason that an Ambassador, accredited by a sovereign, to a foreign power, is not subject to the taxing power of that power. The Ambassador is the representative of his sovereign, and inter- nally and externally is subject to his sovereign, and, for that reason, the property of an Ambassador from control by the country to which he is accredited, whether it be for the purpose of the taxing power, or otherwise, are themselves sovereignies, and likewise are not subject to taxation by the Federal Government. Prior to the ratification of the Sixteenth Amend- ment, the Supreme Court of the United States had held Congress possessed no power to tax the States or the instrumentalities through which they exercise their sovereign powers, not because there was any express declara- tion to that effect in the Federal Constitution, but because such taxation was incompatible with the system of dual sovereignty established by that Constitution. The Sixteenth Amendment made no change in this sit- uation, and it must be construed merely as authorizing Congress to levy an income tax, without the necessity of an apportionment, upon such subjects of taxation as are within the taxing jurisdiction of Congress.

If the contention of the Department of Justice is correct, the Sixteenth Amendment amounts to a new grant of taxing power not subject to the limitations imposed by other provisions of the Constitution. It has some very curious results, which it is difficult to believe Congress could have intended. None of these conclusions was drawn, or even hinted at in the debate upon the adoption of the joint resolution proposing the amend- ment, and the consequences of such an interpretation of the Amendment, are so far-reaching and so destructive of the system of dual sovereignty upon which the Constitution established, that it is hard to believe that, had Congress intended them, it would have passed over them without debate. A consideration of the consequences of this interpretation of the Amendment is, therefore, in order, as it may throw considerable light upon the intention of Congress and of the people in proposing and ratifying the amendment.

The Supreme Court held, in the Pollock case, that a tax levied upon the income derived from real or personal property was a direct tax, consequently, subject to the rule of apportionment. If the Sixteenth Amendment, how- ever, be considered as a grant of new power to Congress, then it authorizes a levy of a direct tax without the necessity for apportioning it among the States. This is a new power not contained in the Sixteenth Amendment, and the ratification of the amendment by all the States, indicates that it was not intended to include such a power. Moreover, has Congress power to authorize a tax, fixed without the necessity of an apportionment, on the income derived from real property? The question in the Pollock case was decided as a matter of law, and this court, in the dissenting opinion of Mr. Justice Holmes, in writing the opinion for the Court, in St. Louis v. Fizer Co., v. United States, 269 U. S. 277, declared that a municipality could exercise its taxing power to tax bill boards out of existence. In fact the taxing power has been used by the States, and even by Congress more than one occasion, for the purpose of destruction. Under the Department of Justice’s inter- pretation of the Sixteenth Amendment, therefore, it would be possible for Congress to authorize a tax on any form of value throughout the whole country, or, there being no limitations upon the exercise of the taxing power, which authorizes Congress to declare, in the Sixteenth Amendment, to select the States in which invested capital should be taxed out of existence. As we believe Congress cannot exercise such power, the Sixteenth Amendment, or the people in ratifying it, contemplated anything of the sort.

Moreover, if the Sixteenth Amendment is such a new grant of power, and the taxing power is such an absolute power, it would enable Congress merely to dispose of the difficulty presented by the decision of the Supreme Court in the Pollock case, but are to be construed as extending the taxing power to all the instrumentalities, whether it be for the purpose of the Federal taxing power, then it follows that Congress may tax the income of the States, of their instrumentalities. This interpretation of the Amendment appar- ently takes that very position. The interpretation for which the Depart- ment contends, forces one inevitably to that conclusion, because the States and their municipalities have income and under that interpretation of the income derived from real property, the Sixteenth Amendment, that is, to persons possessing them, is immaterial. Under that interpretation of the Sixteenth Amendment, the governmental or sovereign capacity of the tax- ing power is abolished, for the moment it is admitted that the character of the States or their municipalities has any bearing upon the validity of the tax, the whole argument made to sustain the interpretation contended for, breaks down completely. It is for that very reason that the Department of Justice, which has taken the States to be such an instrumentality, to demonstrate that all of the decisions of the Supreme Court of the United States, prior to the Sixteenth Amendment, contended for, breaks down completely. It is for that very reason that the Department of Justice, which has taken the States to be such an instrumentality, to demonstrate that all of the decisions of the Supreme Court of the United States, prior to the Sixteenth Amendment, contended for, breaks down completely.

For it was realized that its contents regarding the interpretation of the Sixteenth Amendment were otherwise unsalable.

Moreover, under the interpretation of the Sixteenth Amendment, asserted by the Department of Justice, Congress would possess the power to levy taxes upon the income of all judicial officers of the Federal Government and of the States. These officers might be classified as a class of taxpayers, and rates of taxation assessed upon their incomes different from those assessed upon other classes of taxpayers. Congress has for many years classified taxpayers for income tax purposes, and has assessed against cer- tain classes raise of taxation differing from those assessed against other classes of taxpayers, and this power has been sustained by the courts. It would be within the power of Congress, therefore, to so exercise the taxing power against judicial officers of the country, as to make them sub- servient to Congress, and what is even more dangerous, when Congress is dominated by the Executive, to make the judiciary subservient to the Executive branch of the Federal Government.

This interpretation of the Sixteenth Amendment, would result in con- ferring upon Congress a power which could be used not only to destroy the States, but also to destroy the independence of the Judiciary. States which did not conform to the will of the Federal Government, could be forced into line by the levy, in those States, of taxes upon the incomes of the citizens at higher rates than those levied upon citizens of States which were subservient to the Federal Government, and if that were not sufficient, discriminatory taxes might be levied upon their bonds and upon the bonds of their municipalities, instead of upon the income derived from them, or upon their tax revenues, until they came to terms. The Federal Government would be in a position completely to control the finances of the States and of their municipalities, and through the exercise of the power no State would be able to exercise any of its reserved powers, without the approval of the Federal Government. The States would become as completely subject to the control of the Federal Government, as a county is now subject to control by the State which created it. The States would cease to be sovereignies and would become more geographical divisions, existing at the will and for the convenience of the Federal Government.

The independent judiciaries, State and Federal, which have been so carefully set up, could be destroyed over night. The authors of the Con- stitution were well aware that no judiciary can be independent when its compensation is subject to diminishment by either the Legislative or Executive branch of the Federal Government. For that reason, Article III, Section I of the Federal Constitution carefully provided that the compensation of Judges should “not be diminished during their continuance in office.” Can anyone believe that the people of this country in ratifying the Sixteenth Amendment, would intend this change in the structure of the American Government?

The conclusions, which the Department of Justice seems to have reached, rendering the effect of the Sixteenth Amendment, seem to be due to a failure to realize that the Amendment, upon its ratification, became a part of the existing Constitution and must be read in conjunction with that entire document. That is exactly what the Supreme Court of the United States has done in interpreting the Amendment in the various cases which have come before it since its ratification. It was obliged to hold, for instance, that the intent of Congress and the people in proposing and ratifying the Amendment, was merely to transfer taxes upon income derived from invested property, from the class of direct taxes to the class of excises.
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so as to subject these taxes to the rule of uniformity applicable to excises, and thus avoid the absurdity of assuming that it was intended to confer upon Congress a power to levy income tax at different rates in different States. Similarly, the Court has held that the Amendment is subject to the constitutional prohibition against reducing compensation of a judicial officer during his term of office, and, for the same reasons, it has held that the Amendment did not confer upon Congress the power to tax income derived from State and municipal bonds. In short, the Court has held that neither Congress, nor the people, intended by the ratification of an obtrusively worded Amendment, toidayy impose limitations upon the powers of the Federal Government, which are expressly provided for in the Constitution, of necessarily implied, and which are essential for the preservation of the very form of government which the Constitution was intended to establish.

The Constitution provided for an indissoluble union of insurrectionable States. Whenever the people decide to change that form of government, they can do so, by amending the Constitution, but the amendment will have to provide expressly, for no court will be justified in assuming the people intended a revolutionary change in the structure of government, unless their intention was unmistakably expressed. No court would be justified in assuming the people intended to abandon fundamental concepts upon which the United States was founded, because, in an amendment relating to taxation, is to be found the obscure phrase “from whatever source derived.”

Before I. B. A., Francis A. Bonner, Discussing Maloney Act and Over-Counter Market Sees No Reason Why

"There is no reason why, with the organization, stand-ardization of general principles, efficiency, the over-the-counter market should not be in every sense as well established a market as that of the other exchanges," said Francis A. Bonner, of Blair, Bonner & Co. of Chicago, and temporarily adviser of the Securities and Exchange Commission, in a paper before the Investment Banking Association Convention "The Over-the-Counter Market and the Maloney Act." "Improvement of practices, establishment of the over-the-counter market on a firmer basis, increase in public confidence alone are worth to all of us, in assurance of a more stable and lasting business, more than this effort will ever cost," he said. "In any case, he added, "why, with adequate reliable quotations, an over-the-counter security should be asHomonega collapsed at the bank as one listed?" Putting the question "what is the drift in Washington?" Mr. Bonner said:

For answer, we need not go farther than the subject of today's forum! I ask you to imagine Congress, three or four years ago, passing an act designed to enable the investment banking business to cooperate with Government in the management of its own affairs. It is an expression of confidence which has few, if any, precedents in legislative history. It is a confidence which was not easily won, but which has been and I hope and believe will be well deserved.

Declaring that "we stand at the threshold of a great op-portunity," Mr. Bonner noted that "to succeed in achieving it calls for statesmanship. Statesmanship on the part of Government," he observed, "in understanding and appre-ciation of the size, nature and difficulty of the task before us," and "statesmanship on the part of us in realiza-tion of the necessity of give and take." He added:

Those of us who are large must remember the fear of the small, that they may be embittered by those who do not understand and appreciate their problems. Those of us who are small must remember that there are small forces on the part of the large, that they may be dominated by the numera-riously, relatively small, who do not understand and appreciate their problems. There must be give and take, checks and balances, unity of purpose, for the sake of the business as a whole.

At the beginning of his address Mr. Bonner said that "though sitting for the time being on the Government side of the table and am trying to look at this problem from the business side as one among you." The address of Mr. Bonner follows:

It is with pleasure to be here with you today. Some of the pleasant memories of my life are centered in this spot, at gatherings such as this. It is a new experience, however, to be here as your guest, and I wish to express to all of you my sincere thanks.

Things have changed somewhat, perhaps, when (if I may appropriate the title for a moment) a government official appears before you wearing a gold button. Whether this sets a record I do not know. So far as I am concerned it sets a record. The being in the securities business and in the government at one and the same time is likewise a novel experience; one that I can assure you is not without its worries. In the work which lies ahead,there must be reconsideration of many points of view within the industry and the plan that is evolved may not completely satisfy everyone. My share in the task of reconsideration may put me in the middle, and the future in the middle is often the target for both sides. It is worth whatever risk there is, if such effort is of help in finding a solution.

Though sitting for the time being on the government side of the table, I am yet to believe that I have to say here I am trying to look at this from the business side, as one among you, still trying to cope with the problems of the government side of the business.

The subject before us today is the oldest in the history of this Association. It is in Los Angeles in 1912. Do not permit me to read you the first paragraph of the first page of the first Annual Report covering the first convention of the I. B. A.

Six months ago the Investors Bankers Association of America was in an ecosystem in New York City, a confessed organization. The basis of this meeting was the Maloney Act. A meeting of the Bankers in this country. The conception of the organizers was given nation-wide publicity, and the law was passed. The organization was named in New York City a member of investment bankers was held for the purpose of organization. The gathering was significant not for the future of its make-up, including representatives from New York. It was given to the public its first announcement of reorganization, organized primarily to improve the standard of those engaged in investment banking and for the general promotion of the investing public.

The very history of securities legislation in this country is written by the Legislation Committee reports of this Association year by year since 1912. It is a history of which this Association can well be proud. It is a history which has been accomplished by that of an Association which in that same first Year Book, in the section on "Legislative Act" this appears.

To make the legislative act to correct existing ill is in the investment field was given particular emphasis throughout the convention.

Throughout its history the Association's policy to the need for a new and has been consistently one and the same. As early as 1912, its second year, a policy was enunciated, as follows:

The Committee is in sympathy with any fair and practical statute which will further the public interest in the security market. The fact that much of such law, the enforcement of which would practically destroy the legitimate business of the investment bankers, is irrational and hence a barrier to the flow of capital to industry.

The method of effectuating that policy underwent radical change as time went on. The early Blue Sky Laws were crude. They were written without adequate study of all the problems involved. It was decided that they should meet the public and vigorously opposed, and injunctions were obtained. In 1913 the Committee stated: Your Committee believes that those laws are unconstitutional and that these injunctions will be permanent. The fight was pressed through the courts and by 1916 six Federal decisions, rendered by 14 Federal Judges, had held typical Blue Sky Acts invalid.

Early in 1917, however, the Supreme Court of the United States held the laws of Michigan, South Dakota and Ohio to be constitutional. At once the Association's report called on members to cooperate with State officials to make the growing areas of laws and regulations more workable. But it was not until 1922 that the new philosophy became clearly defined. The Denison Bill had been introduced in Congress, with drastic provisions
which in effect enacted into Federal law the myriad and conflicting details of all the State laws. Conferences were undertaken with the State Commissions of nearly all States to bring order out of such chaos. In reporting on one phase of that work a member of the Special Committee states:

I think that in those four days there was more accomplished in bringing to the SEC the Report of the Committee and the view point of the Investment Bankers Association of America, the public interest, than could have been accomplished in which the members of the various State Associations have been placed and a great many of sympathy with their point of view. It is no light thing, but we have had them with us covering a period of 10 years to my knowledge.

Successive reports growing the friendly relationship with the States, until in 1929 the Committee's chairman

There has been enough continuity both in personnel and thought of our Committee to help us to gain the confidence of the amount of work that we have been in which the commissioners of the various States are placed and a great many of sympathy with their point of view. It is no light thing, but we have had them with us covering a period of 10 years to my knowledge.

The round table method was here, the only satisfactory method of settling the question. It has been marked by great accomplishments on the part of the Association toward improving the market, which has marked the association, the management of its own affairs. It has, as expression of confidence which has been marked, a success in the enunciation of a confidence which was not easily won, but which has been and I hope and will be well deserved. The investment banking business can well be proud of the way in which our State Associations have approached the problem in that code. It was a purely ethical code, concerned principally with questions of the day which have been the code, or other. The National Recovery Administration looked upon it as one of the best, if not the best, of all the codes. The business has taken it and during its short life, though far from perfect, it worked well. But after all there was some legal and compulsory code. It may be said we had to have one. At least as great a tribute to our business has been the way in which, with only a thread of morality to hold them together, such a large a part of it has carried on since the death of the code, to preserve the progress which they believed had been made in the improvement of business practices, and to work out some means of perpetuating it. One cannot pick up an underwriting or syndicate agreement today that does not contain provisions brought to it by the code and never abandoned. Recently some of us have had the privilege of meeting with dealers in a number of cities. Of those I would like to discuss this new legislation, the same. It has been inspiring to see the widespread response of dealers everywhere as soon as they have better understood what it is all about.

What we are here today is to discuss the fruit of gradual progress. More directly it is the outcome of a steady, consistent chain of events, if not one or two years. One need but cite the almost unanimous vote of registered dealers under the code, after the Supreme Court act, to favor of the whole. I like to bring together to work out a permanent plan and agreeing to pay assessments to make it possible. The 1928 amendments to the Securities Exchange Act did not just put an abstract plan, the outcome of three or four years of concentrated study and effort on the part of our profession.

It has been a hard won road and is far from finished. It is not the time, perhaps, to indulge in visions, but one cannot refrain. What we are facing here is no problems of destruction of a set of principles and go about our play. Nor is it an old lads' sewing circle, to adopt a sect in laws and business practices. In favor of the whole. I like to bring together to work out a permanent plan and agreeing to pay assessments to make it possible. The 1928 amendments to the Securities Exchange Act did not just put a抽象计划，the outcome of three or four years of concentrated study and effort on the part of our profession.

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The whole history of the investment banking business, since the beginnings of this Association, has been building up to what is before us today. That is a commanding fact which we must not overlook. It means the chances for us now to carry further that growth in popular esteem which has marked our business over the past five years, and to build and keep for the over-the-counter market a place commensurate with its importance in our economy. This is the market which not only provides new capital for our industry, but also in very great part forms the security representing that capital afterward. There is no reason why with organization, standardization of general principles, efficiency, the over-the-counter market should not be in every sense as well established a market as that of the exchanges. Securities of some such type may not be necessary, but others; those of other type belong to the other; and if we get our house in order and keep it so, there is infinitely more prestige that we may better care for, even retain, those which belong to ours.

Improvement of practices, establishment of the over-the-counter market on a firmer basis, increases in public confidence, alone is worth all of us, in assurance of a more stable and lasting business, more than this effort will ever cost. There is no reason why with such a process, an over-the-counter security should not be as well collateral at the banks as one listed? Is there no opportunity for substantial savings to all of us in shipping, insurance, and other expenses through establishment of circulars, for example, of course, must be always a vital factor, but could not some of these efforts in fact be self-sustained? One can imagine many other possibilities, working to the benefit of both the public and ourselves in the daily conduct of our business. Much of this is for the future, as we go carefully along and gain in experience.

We stand at the threshold of a great opportunity. To succeed in achieving it calls for statesmanship. Statesmanship on the part of government, in understanding and appreciation of the size, nature and difficulty of the task before us. What in effect we are trying to do is to set up an organization which has taken the stock exchanges 165 years to achieve. The task is to set up for the over-the-counter market an orderly, well organized exchange, for we may call it that, with a floor, 8,000 mile long and almost as wide, with a membership (and I speak advisedly) in part untrained in even the rudiments of aged common law or the primer of sound practice in the conduct of their own daily business. In large part our initial task is educational. To succeed here must be appreciation that an infant must creep before it walks and walks before it runs, I am hoping that there is a mutual confidence on the part of government there may be patience and adequate time to attack a ponderous job, and no expectation that a warrior shall spring full grown from the seeds of an idea. Statesmanship on the part of ourselves, in realization of the necessity of give and take. No problem of such complexity can be worked out entirely as any one of us may wish it. We must remember the vital fact that Congress has had no such unprecedented thing as regulating restrictions of the anti-trust laws from this effort. Subgroups therefore have had to be erected. We must remember that what we tackle is a mutual confidence problem and not that of any group large or small within it. In this little must be no open versus west, or north versus south. Those of us who are large must remain as a public corporation, and those of us who do not understand and appreciate their problems. Those of us who are small must remember that there are similar flaws on the part of the large, that they may be dominated by the numerically greater small,
who do not understand and appreciate their problems. There must be give and take, checks and balances, unity of purpose, for the sake of the whole. Some have criticized, perhaps some will do, the kind of regulation en¬
tailed, in view of the Commissioner's supervisory powers. Yet they
hardly could have expected repeal of the Securities Exchange Act as it
relate to our business, and that is what an unsupervised form would have represented. Let us be realistic. We have an opportunity here to set up our
rules of business conduct under a system of business penalties—for prefer-
able, it is not, to Commission regulations covering the same field, enforce-
able through criminal penalties. The process, I think you will find, is
parallel to the governmental supervision now existing over the stock ex-
change. Governmental control, however, never provide the essential
safeguards to prevent charlatanic, monopolistic, or other unfair ten-
dencies.
Let us not be over-optimistic. We have a real task before us. It will
not be easy sailing. There may be brokers ahead. But if we appreciate
our job and do it well, we shall have accomplished something and set up
an example of cooperation between government and business, the con¬
sequence of which for the good of ourseves, the benefit of our national
economy, and the welfare of the public, may well be great.

Commissioner Mathews of SEC Discusses Before I. B. A.
Maloney Act Program Incident to Formation of
Over-Counter National Association

The question as to the future course of action under the Maloney Act (placed on the statute books during the year
of the investment bankers, the over-the-counter brokers and
dealers, and the Securities and Exchange Commission was
brought before the convention of the Investment Bankers
Association by George C. Mathews, a member of the
Commission, who reviewed on Oct. 28 certain aspects of
the legislation, as to which he said that there has been widespread
misunderstanding with respect to its objectives. His ad-

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Commission either on application or on its own motion and under the Securities Exchange Act of 1934 appeal lies to the courts from such determinations. The Commission may make. Likewise, there are provisions in the Act designed to provide safeguards against monopolies and monopo-

listic abuse and to protect a free, open, and competitive market.

Before this audience it is obviously unnecessary to review the provisions of the Maloney Act in detail, particularly since we shall be called upon at a later period in this forum to attempt to answer any questions which you may have on this subject. It is, however, wise to lay emphasis upon the flexibility of the provisions of the Act which are designed to permit forms of organization suitable to the differing needs of the financial communities throughout the country and of the different industries which shall be included within the board framework of our over-the-counter securities markets. Likewise, it may be well to remind you that the coproductive program envisioned in the Act must of necessity be an evolutionary one. Ideally, the industry should essentially play the role of an accommodationist and development along sound economic and social lines. It should in the largest possible measure achieve that ideal under democracy of which Josiah Royce described as the restraining of self-centrism. As spokesman for the Commission repeatedly have said, it is sincerely to be hoped that the ultimate role of the Commission will be a residual one in which its energies may be primarily directed toward dealing with that substantial evil known as local interindustry competition which in the absence of corresponding effort to abide by either moral or legal standards. Admittedly, the full-

fillment of this ideal requires time. Many ancient prejudices must be reviewed and much of an educational nature needs to be accomplished. Mutual understanding and confidence must be erected not only between the Government and the securities business but also among the various elements within that business. All of these things were taken into account in the drafting of the Maloney Act. It was provided that under certain conditions must be met in the rule and form of organization of an association before it could be registered, but ample latitude was allowed for the continuing development of such an association in the direction of the objectives sought to be achieved by the Securities Exchange Act of 1934. Furthermore, the Act is clearly predicated upon the assumption that the vast majority of individuals and firms engaged in transacting business in securities are honest and honorable. In that assumption we steadfastly believe. On any other premise a cooperative program, such as that provided for in the Act, would be impossible.

I have one other historical comment to make with respect to the Maloney Act. It should be noted that the provisions which took place before the committees of Congress and in conferences between our Commission and the national associations of investment bankers and the Investment Bankers Conference. As a result of those discussions many changes were made in the substance which were not originally drafted. I think it is safe to say that no piece of regulatory legislation in the field of securities has ever been enacted in this country with respect to which there were so many conferences between the Government and the representatives of the industry to be regulated. This fact, I believe, is highly significant.

We now come to the questions of what sort of organizations should be created under the provisions of the Act. The framework of the plan should be brought into existence. So far as I know, no existing organiza-

tion of brokers and dealers would qualify for registration in precisely its present form. It is my understanding that your association has elected to retain its present characteristics and to continue to exercise its traditional functions. It, therefore, does not intend to apply for registration. As I indicated to you last year, there is a useful place for such an organization, one of the functions of which is in spirit of candid advocacy to represent and make articulate the attitude and desires of a restricted membership, without subordinating its personality to that of any larger body. I believe this organization, if properly constituted, can with the aid of the regulatory framework have a substantial effect on the rehabilitation of the industry as a whole and can perform a service which is highly desirable and the solution of those problems within our trading markets which exist on a national scale. Such an association should also be in a position to create an efficiently functioning mechanism for the arbitration of disputes and the investigation of complaints between firms and individuals in widely separated localities.

I have indicated that, in my opinion, the existence of a strong national association is essential to the effectiveness of local administration and I think this is especially true if a substantial measure of local administration is not only desirable but prac-

tically indispensable. It seems only appropriate that complaints relating to the business practices of a dealer in a given community should be heard by an appropriately constituted national body with the aid of all the reports and the conduct of the securities business in that area, rather than by men conversant only with conditions existing in other communities.

An example might be a controversy involving the relationship of a profit or a commission, since the rules of a registered association must provide suf-

alendar. I think the Members of the Committee are entitled to perform a service which is highly desirable and a service which the industry as a whole may be able to perform only in cooperation with the industry as a whole.

A portrayal of a picture of American industry was presented at the annual convention of the Investment Bankers Association by F. C. Crawford, President of Thompson Products, Inc., as to which he said “it is not a battle between capital and labor.” “It is simply every day human nature expressing itself in a free land,” Amherst, he said, “longs for prosperity.” He described the present situation in which industry finds itself as “a political depression” and observed that “industry and banking have being sitting idle, waiting for the old American way of the free, unobstructive production to come back by itself.” It moves, he said, and added, “we have had the “eat before the horse.”” He went on to say: “Our future course lies in going back to work, forcing production to the limit regardless of all regulation and obstruction until we produce enough wealth to start building a new degree of prosperity. If we are successful, we will see America turn from left to right, tend to become conservative, to understand the old American way, to remove obstacles so full prosperity may follow.” Industry, he said, “accepts the challenge capital must also accept the challenge.” Mr. Crawford spoke extemporaneously, but the following as to his remarks, is made available:

**Introduction**

I propose to tell a simple story of industry as seen by the industrialist.

It is a period of great confusion. Each observer looks through glasses of a different color. I represent growing, expanding industry, perhaps the kind badly needed by America. Small industry—yet there is no distinction between small and large industry except here. America’s road to prosperity lies in the expansion of growing industry. I divide my talk into three major parts:

**PART I—A Picture of American Industry.**

**PART II—The Picture of American Industry against the Background of American Life.**

**PART III—What to do about it.**

I want to try to graphically portray a picture of American industry. It is not a battle between capital and labor. It is not a cruel invasion of 60 families for great. It is the battle between human nature in a free land. I will picture industry as a large triangle.

(1) At the lower left-hand corner I put capital—labor of the past that has been supplanted by the new demands of production. All of us who save or have insurance policies, or own any property are part of capital.

The demands of capital upon industry are given reasonable return and a reasonable return for risk. These are natural human demands.

(2) At the lower right-hand corner I place labor—of the past that has been supplanted by the new demands of production. All of us who save or have insurance policies, or own any property are part of capital.

The demands of labor upon industry are given reasonable return and a reasonable return for risk. These are natural human demands.

(3) At the lower right-hand corner I place labor—of the past that has been supplanted by the new demands of production. All of us who save or have insurance policies, or own any property are part of capital.

The demands of labor upon industry are given reasonable return and a reasonable return for risk. These are natural human demands.

There is no talk about costs. Nor is there any question that the industries must be given a chance to expand and to develop. There is no talk about costs. Nor is there any question that the industries must be given a chance to expand and to develop. There is no talk about costs. Nor is there any question that the industries must be given a chance to expand and to develop.

Please observe the market is enormous; reserves of capital are enormous; supplies of labor are enormous; and all these must wait until management, which is scarce, goes into the triangle to reconcile the demands from the corners.

Who is management? Not the smartest—not just the genius—just a plain man willing to pay the price and meet the great demands of American industry. His reactions, again, are simply human nature expressing itself. For self-preservation he must find a way to reconcile the conflicting demands from the corners of the triangle. He must be a visionary dreaming of new products—the man who can see the whole picture. For example, the manager sees the market for new products and recognizes the fact that these new products are needed and that there is a market for them.

Please observe, the market is enormous; reserves of capital are enormous; supplies of labor are enormous; and all these must wait until management, which is scarce, goes into the triangle to reconcile the demands from the corners.

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Observations from Our Business Triangle

1. The American industrial system, as called capitalist, is not a system at all. It is every day human nature expressing itself in a free market. There is no regulation. It is all spontaneous. It is a new invention by 50 families in collusion with the bankers. Sweep it all aside, and in a free land, exactly the same thing will come back—naturally.

2. Industry is not a game. It is a way of producing wealth which did not exist before.

3. From the nature of industry, it is a healthy tough way of war between natural human demands. It cannot be made into a Sunday school, a charitable institution, nor an old man's home.

4. The business triangle tends to balance the demands made upon it. In the long run under freedom, the force will balance the demand.

5. It works. This American industrial way of life has produced extraordinary accomplishments in the past 50 years—the world's highest standard of living, the lowest standard of wages, the lowest costs. It is a paradox of industry that as the buyer pays less, capital and labor get more.

6. There are no classes in the American system. All of us are market. All of us are capital. All of us are labor. All of us are making the three conflicting demands upon industry.

7. The nature of this system is a steady flow of new capital into the triangle to buy the new tools of production which will keep up the process.

8. I call this the American way because nowhere on earth has this triangle of industry been free to function as it has here. Of European ways we went to. Go to market with your market basket anywhere in the world. You can fill it in America with one-half the labor that you can fill it in any other land.

PART II

I will try to fit the picture of American Industry against the whole background of American Life.

There are three groups of human activity.

1. Social, including religious, educational activities, &c.
2. Political, including all forms of government, municipal, State, Federal.
3. Commercial, including industry, commerce, agricultural, banking, &c.

Please observe that from a material point of view, the social and political groups are overhead, producing nothing material. All material wealth is produced by the commercial group.

Consider the past 50 years. The social group did not reach any outstanding success. The political group did not reach any great success. The commercial groups reached greatest wealth and a standard of living that is the envy of the world; a standard of living more widely distributed than ever before. Let us see what all this means to the American industrial triangle—operating in a free land. During this time a prosperous American remained constantly solvent.

War brought a great upset of world-wide scope, temporarily. All relations which had commercial world value were rebuilt for war. Civilization is founded on credit, and credit on price. War, temporarily, doubled the prices. Governments had up prices, decreased production and increased prices. American commercial world was remade at an international level.

Peace returned followed by boom, collapse, and depression. This always follows war. There is no mystery about it. The whole artificial structure must collapse in peace price levels.

Collapse resulted. Our people were in distress. In distress they did not turn to the social group for religious or intellectual activities, nor did they turn to the political group to perfect a better political science to prevent war. In distress they turned to the commercial group demanding a return of a standard of living that is beyond their purchasing power. The American people should have allowed the business triangle to adjust itself for the production of increased wealth which was then. A prosperous America was conservative. Now an American in economic distress turned from right to left forgetting the old American way.

Strange things began to happen to our triangle of industry. The several central groups—overhead, non-producing groups.—pulled on the social and political groups, putting pressure on the commercial group. The political group, the teacher, the politician, had much to say. Distress, class hatred, abuse, are spread by these non-producing groups upon the American industrial group, and American people in distress, turning to the left, listened to this criticism.

Then followed an avalanche of reforms. Politicians take charge. Increased taxes and other things hinder the natural functioning of our triangle of industry. Special privileges are given—all comity to the best interests of 120 million American people. Under the name New Deal a reformer over a thousand years old, is offered our people. People forget how America produced her wealth.

So, today industry strives to adjust itself to the mass of inconsistencies and conflicting reforms that hamper for the natural processes of production. Over the industrial hang threats of fine, punishment in jail, injunction, triple damages, courts of our. This is the situation in which industry finds itself.

Two roads lie ahead:

1. If the American people can understand the American way and remove political causes, the greatest prosperity dreamed of will quickly result. There will be two jobs for every man. The industrial triangle will produce forth wealth for all. I hope the American people will follow this first road. It is the duty of every citizen to spread the story of The American Way so that the American people will understand it. Each must go out and tell the story to the man in the street, on the farm and in the factory. However, it is unlikely that we will follow the first road. Never have people in distress turned from the left back to the right. Then, what is the second road?

2. If the people fail to understand and do not remove the political causes of depression, it is still possible to attain a degree of prosperity even though only half of what it might be. This is our second road. We must unite to attain the very highest degree of prosperity possible, under existing conditions.

We have forgotten that only prosperous America will be a conservative America. We have forgotten that only economic distress ever made America turn to the left. We have forgotten that only continued distress can keep America on the left. Industry and banking have been sitting idle, waiting for the old American way of free, unobstructive production to come back by itself. It never will. We have had the “cart before the horse.”

Our future depends on going back to work, facing production to the limit regardless of all regulation and obstruction until we produce enough wealth to start building a new degree of prosperity. As we push this degree of prosperity higher, America will turn from her “sine” just as fast as distress leaves the body. If we are successful, we will see America turn from left to right, tend to become conservative, to understand the old American way, to remove obstacles so that full prosperity may follow. This is our second road.

Industry accepts the challenge, renews faith in itself, surveys its obstacles, forgets criticism and undertakes to produce this higher standard of living. Industry cannot do it alone. Capital must also accept the challenge. It must again provide a steady flow of capital essential to industrial success. This is more necessary than ever before. The factories of America are half obsolete; go back to your workshops, capital. Forgive criticism. Renew your faith in American Industry. Overcome obstacles. Invent new ways to keep this flow of capital to industry. If hope fails—get them changed. Tear up your old rule books. Forget your old methods. Focus your attention on the quality of management which is all that counts today. Back it to the limit with a steady flow of capital and we will bring about that measure of prosperity that will be really prosperous. This is our second road. Let me read excerpts from some editorials.

The Government has carried all its power to cripple the man of business. The people are taxed on everything that is available—yet expenditures are greater than income. There is no end to the extravagance of Congress. This Administration is a continued series of strange events. Infringement upon the rights of business, restriction of business, currency, executive usurpation of power, a violation of public faith, loss of confidence, thronged hundreds of public committees.

The challenge is to America to consider the lives of other nations. We are the most prosperous of any nation in the world. On your own continent and every continent of the country is enough to scare the average business man to death.

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Possibilities for Investment Banking "As Great as ever" Says Prof. Marcus Nadler in Discussing Economic Situation Before I. B. A.—Notes That When Government Ceases to Supply New Securities Deficit for Other Securities Will Increase—Problem of Managed Currency

"An analysis of the present economic situation of the United States reveals that the possibilities for investment banking in the country are as great as ever," said Marcus Nadler, Professor of Economics, University of Oregon, speaking before the convention of the I. B. A. on Oct. 29, on the subject of "Some Problems Confronting Investment Banking." The future of industrial plant and equipment is widespread in spite of the progress that has been made in the past few years, Prof. Nadler stated, and he told the bankers that "billions of dollars need to be invested in order to increase the efficiency of American industry." This "in turn," he continued, "requires capital which cannot all be obtained through the market and will be obtained through the sale of securities in the open market." He also made the statement that "if we make the right big future firms can even see a revival of international lending in the United States." "Whether financial institutions or individuals are the chief buyers of securities makes very little difference to the economic development of the country," Prof. Nadler contended. From his address we also quote:

"I personally am not for the present concerned about the huge public debt of the United States Government. It is, however, obvious to every thinking person that even the Government cannot go on indefinitely with deficits of billions of dollars each year. An improvement in business un-/doubtedly will bring about an increase in revenues and a decrease in relief conditions of the Government, thereby decreasing its demands for new /funds. The moment the Government ceases to supply new securities for other securities will naturally increase. The outlook for business in the United States is favorable."

In the view of Prof. Nadler the "chief problem that confronting /the economic system has political solutions. We are to live in the future," he said, "in this sense, the task of the investment banker is nothing less than to save the American /man—to oppose with all the means at his disposal the foreign ideologies, be they of the Left or of the Right, from entering this country. Totalitarian governments have come to power on unrealizable promises. In totalitarian countries not only is business regimented but the entire economy, cultural and social life is under the sway of the government." "The task then of the investment banker," he added, "in so far as the average man in the United States, is to see that we do not sell our heritage for a mess of /potage or even for $30 each Thursday." He continued: "If we preserve the form of government in the United States, there is every indication that the country will overcome its present difficulties, solve its problems and soon resume its economic growth."

A portion of Prof. Nadler's address had to do with "Managed Currency," and in his comment thereon he said, "Interring with the currency has solved no economic problem. On the contrary, it has created new problems, the solution of which demands a return to more normal currency conditions." In full, we give his address as follows:

"The Problem of Program and Risk"

It cannot be too often repeated that banking and credit institutions are primarily handmaiden to industry and trade organized for the purpose of facilitating production and distribution. Any change in the principles on which business rates or any change in the methods of doing business is therefore bound to have an effect on the financial institutions of the country. The money and capital markets of a country reflect not only the economic development, the degree of business activity and the policies of the Government in this and the mood of the people. The activities of the investment banker whose function it is to bring those in need of capital in contact with those who are disposed to supply it, is bound to be affected by these conditions.

The business of the investment banker, is cyclical in character; it is active in a period of prosperity and sluggish in a period of depression, and depends

primarily upon the demand for capital by corporations, governments and individuals. The production and distribution of goods is a result of rapid economic development when new forms of transportation and communications are established, when the industrial organization of a country is rapid, investment is active, and money is not necessary active, for the capital and savings of the country must be mobilized through channels of investment. Under such circumstances the opportunities for the sale of securities to the public are bound to be increased and the public character and to some extent the security of its portfolio will turn a business man's risk.

Speculation of great magnitude goes hand in hand with economic progress. It is true that individual investors may suffer loss, but the country as a whole is bound to gain from the investment represented by new methods of production or new forms of transportation and communications. In a period when the industrial development of a country slows down, not only will the money be relatively less active but the loss of capital will be more conservative, being primarily interested in safety of principal rather than in returns. In other words, security dealers are locked into bonds and are surrounded by moneys on which it carries an interest.

Once such an investment policy on the part of investors becomes permanent, the economic growth of the country is lessened. This was the case in Great Britain after the War. Investors were primarily interested in the purchase of Triple A securities and, in their search for safety, the French government either in the United States or in its own government and, because of lack of secure moneys at home, in the obligations of allied countries. They thereby incurred extended credit risks. Anything with a high coupon rate was frowned upon as speculative in character. The conservative character of the French investor before the war was reflected in the slow economic development of France. In spite of its great wealth, its economic growth was not commensurate with that of some of the neighboring states which had less capital at their disposal.

At present the great investors in the United States have adopted a very cautious attitude. Triple A securities are in great demand, whereas all other types of bonds are selling at a discount of risk attachment. In Great Britain, taxation, particularly in the upper brackets, has increased the desire for tax-exempt securities. Large numbers of investors have been made to find that he is much better off by buying a 2% tax-exempt security than an investment yielding 5%. Restrictions imposed by the Treasury on the registration of securities further tend to reduce the supply of securities of medium-sized corporations. May one make the statement that the time is permanent. The economic future of the country will have on the further economic growth of the country. If investors through the purchase of such securities of a young industry and refuse to take a businessman's risks, where will the new industries come from, the new expanded capital and the new economic development (slow down) the economic progress of the country?"
times capital loans are made for the purpose of raising outstanding bonds or preferred stock yielding a higher rate of interest or a higher fixed rate of dividends. Hence, the condition of capital markets continues for any length of time, more and more capital loans are made by banks and insurance companies.

The change in bank examination procedure recently instituted by the Commissioner of the Currency is bound to stimulate the granting of capital loans. The examiner is directed to hold every loan contract which the banks secure in this character, and in the event that the bonds, at the present time, are eligible for reduction of securities, it may also extend the volume of loans that they would not have previously made because of fear of being examined by the examining authorities.

The change in the eligibility provisions of the Federal Reserve Act under which the Comptroller of the Currency is considered as a mortgagee of securities becomes evident for the banks that may find themselves in a situation where the bonds in question are reducing the securities, being raised. This may tend to increase the volume of loans that the banks may be eligible for reduction of securities, or be causing an increase in the volume of term loans made by banks.

In conclusion, the present volume of business and the volume of new security offerings, will play in the economic life of the country. For the investment banker to close his business, these developments would mean to effect a trend which may materially influence his business in the future. The present state of the market and the future of business and the volume of new security offerings, are an important consideration in the economic life of the country.

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managed Currency and Investment Banking

Managed currency is generally confused with the process of tinkering with the monetary and financial systems of any nation, and the question of the gold standard and the attempts of a government to influence the internal and external relations of its currency on the world market, however, one will find that this part of managed currency plays a vital role in the national economy. The regulating of the monetary system that is the inconvertibility of gold to silver has remained fairly steady in relation to a more or less stable price level, but with the advent of the gold standard the foreign exchange market moved off the gold standard before Jan. 31, 1914. The currencies of all leading countries have remained fairly steady in relation to one another and to the dollar. In the world market prices of the goods of the world and the value of the dollar are interwoven.

Generally speaking, Low is the currency a market, and the change of a market is a substantial change of purpose or influence. As such, it is not likely in the United States the currency will be changed, but a considerable change in the structure of the currency may be expected in the future. The change in the structure of the currency may be expected in the future.

For the purposes of the present discussion, I shall consider myself primarily with the purposes of investment banking and the securities markets, because this has a definite bearing on investment banking. While in the future this will continue to be the case, the main object of the research is to examine the effect of monetary policy on investment banking and on the volume of new securities offerings. The study of the relationship of the effects of the government to influence business conditions through monetary means merely lends a clue to the nature of the market and the instability of loan and mortgage money.

The change of the market and the change of business and the volume of new securities offers, is an important consideration in the economic life of the country. For the investment banker to close his business, these developments would mean to effect a trend which may materially influence his business in the future.

The present state of the market and the future of business and the volume of new security offerings, are an important consideration in the economic life of the country. For the investment banker to close his business, these developments would mean to effect a trend which may materially influence his business in the future.
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The investment banker in contrast to the Government is not in a position to regulate the flow of capital, but all, he is merely a merchant in securities. The ordinary merchant, he is not in a position through advertising or otherwise to educate or influence the tastes of his neighbors. The merchant's function is to purchase anything but the highest grade of securities there is little that the investment banker can do. If the Government wishes to divert the flow of capital into housing, but the investing public refuses to purchase mortgages bonds, unless indirectly by the Government, the merchant banker is powerless. Similarly, if because of the construction of public utilities by municipalities with the aid of Federal Government subsidies, the outlook for the privately owned capital utilities deteriorates and investors refuse to buy their obligations or equities, the investment banker can do little to remedy the situation. In the past this has happened. Hence, the Government cannot do what it wants only and couldn't the initiative in the construction of railroads, factories, and in the merging of energy industries?

Managed currency, as already in operation in the United States and in many European countries, can only be in the interest of the public as a whole if the Government, directly or indirectly, will direct the flow of capital into certain channels or through the establishment of new financial agencies by the Government which will divert the flow of capital into channels desired by the Government. Those agencies operating with the blessing of the Government, or whose obligations rest on the credit of the Government are in a position to direct capital out of the market and into the Government's specified field. If the market then is willing to buy the Government's securities, it could not affect private capital. In either case the influence of the investment banker is bound to decline and the role of the Government is bound to grow.

The Outlook

From what has been said so far, one may reach the conclusion that I am pessimistic about the outlook for the investment banking business. However, stating the problem squarely does not mean a pessimistic conclusion.

1. for one, cannot believe that the United States has already reached the turning point in its economic progress. I am convinced that the standard of living in the United States is bound to increase and it implies the introduction of new machinery, of new life, and employment. However, what does this mean in the flow of new securities by corporations. A higher standard of living can be achieved only by an increase in the efficiency of labor, which is higher wages and low prices.

As an analysis of the present economic situation of the United States reveals that the present economic situation as a whole, the flow of investment is as good as ever, the existence of industrial plant and equipment is widespread in spite of its present distress. The Government has not been in the position to raise the prices of industrial plant, but it will be obtained through the sale of securities in the open market.

The public utilities are bound to go on increasing. The flow of our utilities operated practically as a capacity. A further increase in business activity is bound to come an expansion of utility plants and equipment. This too will require new capital obtained through the open market. The railroad has been a negligible factor in the capital market for quite some time. However, sooner or later the railroad with appear as in an expansion market to finance the replacement of equipment. The investment genius of the American people has not come to an end. New industries will be made, new industries will be established which will at least be p.r. better than the capital obtained in the open market. However, one assumes that the Government will play a much greater role in the future in guiding the flow of capital into channels desired by it, and even though more and more obligations will rest in the credit of the Government which are sold by the Government directly without the aid of investment bankers, yet the demand for the investment banker is not disturbed.

If one looks into the more distant future one can even see a revival of investment banking business. The Government, in the past, in the form of events has shown, is sick of wars, and therefore to establish more peaceful conditions has been the most important Allegiance of all nations, as well as those laboring under totalitarian governments. The United States would be able to raise 30,000,000,000 of gold and more for gold and more is bound to come here. In the peaceful period of the world the United States will inevitably play an important role. Remote as this may seem at the present time, a change will come and the change will come in the United States will be bound to be a change in the financial aspect and may lead to a revival of the international capital market.

In Europe, the rise of the belief buyers of securities makes very little difference to the economic development of the country. The fact that the Government is able to finance its annual deficit of billions of dollars. I personally am not for the present convinced that the United States will be able to finance its deficit without the help of investment bankers. It is obvious, however to every thinking person that even the Government cannot go on indefinitely with deficits of billions of dollars. And an increased income and revenue and a decrease in relief expenditures of the Government, therefore, become an important item or need for the Government. The Government, in order to supply new securities to the market, the demand for other securities

Implications of Recent Legislation Discussed by Roscoe P. Pound

I. B. A. Convention Proceedings
Zeal to Regulate by Rule—Cites Administrative Absolutism in Invoking Taking Away of Legal Security from Municipal Liberties

Roscoe Pound, former Dean of the Harvard Law School finds that the zeal today to regulate by rules is carried to extremes. "The Government was carried half a century ago." Addressing the I. B. A. meeting in a short, four-minute luncheon-convention on Oct. 29 on "Some Implications of Recent Trendings in Regulation," he said "regulation has become a fetish, as freedom from regulation was in the last century." He went on to say:

Both regulation and freedom from regulation are means toward ends. Neither is intrinsically, absolutely good, to be carried to its potential limits for its own sake. Neither is something intrinsically absolutely bad to be utterly done away with. But the outcome of excessive regulation and the outcome of excessive freeness are both bad, are both inexpedient. A wise regulation is necessary and a wise freeness is necessary.

Referring to "a type of recent legislation growing continuously in volume and importance," and which he said "threatens to supersede the law over substantially Its whole domain," he described the administrative absolutism in which government agencies are constituted in all forms of executive agencies which it purports, come within by field of study. It is to that type and what it implies that I am inviting your attention. The administrative absolutism is a growing form of executive as an instrument of the intrinsically living, changing, variable of every form of autocracy. Indeed, administrative bureau and officials rather than the nobility of the nation, as agents of government. There has been personal as contrasted with constitutional government. The administrative absolutism is acquired by right of the executive branch. It presupposed a lack of competence on the part of the community smood exalted itself to its own affairs. It has been, however, in such things as their own affairs. The corollary of the presumption that the public agencies are not competent to manage the details of their own affairs is that they are unqualified to manage the public affairs of the state as performed by absolutism must stand upon a political absolutism.

Dean Pound's address follows:

Forty years ago, when he was called on to speak of American institutions, at once struck a note of resounding
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Right-handed of the American but now steered at frequently by young lawyers newly appointed to give court to administrative bureaus and lawyers in strictest order.

Still another idea which had governed our policy was distribution rather than centralization. This was an application of the idea of balance. It was an idea of parceling out of authority among coordinate agencies of government, defining the limits of the power exercised upon one another, and keeping each within those limits by rules of law judicially declared and administered. In the last century we thought of balance as a means of extending the idea of freedom. Today it is studied as something belonging to the slow going days of the past and is disappearing before a tendency to give bureaucracy and boards and commissions all the powers of government without limitation or restriction.

All of these ideas run back to a fundamental idea of freedom or liberty, an idea which has not merely ceased to be entertained in advanced and self-satisfied liberal circles, but has been thoroughly stamped out of the human imagination as wholly repugnant. Cicero said we were slaves of the law in order that we might be free. Unquestionably this was the political idea of those days, in order that we may preserve democracy by committing demos to the rule of useless, lifeless, and self-styled free-thinking. The giving up of what has been the basic idea of our policy and of our constitutional idea on which they rested, if indeed we mean conscientiously and sincerely to give them up, is, I think, the most hazardous, the most perilous, and the most complicated of all the changes that we have been considering.

Perhaps this fashion may in time prove to be as transient as were its forerunners. But I am not here to urge return to any of those fashionable ideas. I am here to urge the development of an ideal of a new fashion. I am not here to urge a return to the economic ideas of the last century. In the year 1717, when we wrote the first page upon our statute book in the past 40 years, I am not presenting some ambitious plan, some scheme, of such a nature that the State might well be called the biggest, better, and most perfect thing in the world, for there are the old limitations and the old problems, and the old passion for the political good of the state, to a superintendent, to an administrative absolutism unless they can maintain a system of balance. Otherwise there is anarchy of struggling interest in which the offbalance actuates. It is for this reason that we must take the form of giving in to the more ruthless or more insistent or more unreasonable.

It is no more possible to cull all the ill which are incident to the conditions of this present time than it is possible to cull all the ill effects of social and economic order, by a regime of complete administrative regulation. We have to deal with the task of adjusting their conflicting and overlapping interests and clashings of political power, and must give to the State, to a superintendent, to an administrative absolutism unless they can maintain a system of balance. Otherwise there is anarchy of struggling interest in which the offbalance actuates. It is for this reason that we must take the form of giving in to the more ruthless or more insistent or more unreasonable.

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bring about what administrative agencies were needed to achieve. Our judicial task of reviewing had to be set up for pioneer communities in which little or no administration was needed. Our legal procedure, inherited from eighteen-century American law, was not appropriate to the new administrative agencies. Not a little friction and waste resulted while we were finding the ideal structure to apply to what was not struggling to apply constitutional and legal limitations under an inadequate organization and procedure.

But, we ask, why not take a realistic view? These administrative agencies are with us, they are busy at work on every side. They have in their fear the tasks of the old irresponsible and irresponsible departments of the government and the public. They are finding their way, they are learning the crafts of legislation and learning to apply constitutional and legal limitations under an inadequate organization and procedure.

One of these characteristics is a bureaucratic disregard of the maxim "hear the other side." This is a maxim that every law-enforcing agency expressly requires a hearing has it happened frequently that the bureau or commission had not been the least some action that parties that without any real findings of fact. This tendency has appeared in England and in Australia as well as in the United States. Again, there has been a tendency to act on second-hand statements of general reputation, opinion and gossip, sometimes to the advancement in advance of one of the parties, with full knowledge of the cross-examination of the sources of opinion. This sort of thing is especially manifest in connection with a tendency to make determinations on the basis of the evidence of the officials of a bureau, without examining the evidence, without consideration of the officials, who are not present, who are not sued, who are not cross-examined. Administrative agencies are subject to the temptation to treat the individual who has been sued, the individual who is the subject of investigation, as is the legal officer in the particular case.

I think we have to convey, to the public of the United States, the idea that there is a new interest which is the result of the administrative department of the law. Administrative department, in the last two or three years, has been given a new interest which is the result of the administrative department of the law.
Jean C. Witter, Following Election as President of Investment Bankers Association, Pledges Assist-
ance — Says Aim Is to Work with SEC and All Regu-

At the concluding session of its annual convention, on Oct. 29, at White Sulphur Springs, the members of the Investment Bankers Association of America elected Jean C. Witter, of Dean Witter & Co., San Francisco, as President at its coming year, succeeding Frank W. Cross of Coffin & Co., Boston. Mr. Witter, with his induction as President, in commenting on the important work ahead of the Association, declared that "our number one job is to revive the investment banking industry in this country." "Since a resump-
tion of new capital financing," he said, "is so close to the crux of our biggest national problem, everyone must be interested in seeing that there is new financing." The first item which he proposes to handle is the Association's 1938-39 schedule was cooperation with the Securities and Exchange Commission in "carrying out the objectives of the securities legis-
lation it is obliged to determine. ..." The final importation of the Association's attention Mr. Witter cited Federal taxation, railway legislation, &c. His address follows:

Mr. President, Ladies and Gentlemen of the Convention:

I am grateful for the friendship and confidence you have evidenced in electing me to this high office. It is a great honor and privilege to be your President. I am also keenly aware of the obligations and responsi-

The business of the Association is not merely to reviv-
e our number one job is to revive the investment banking industry in this country. The

I first became interested in the I. B. A., and for two reasons: One, its fine objectives and high standard of ethics; the other, the kindred among its members. Many friendships started then have con-

Witter,院长，选举为投资银行家协会的主席，承诺协助——说目标是与SEC和所有监管机构合作。


先生，院长，女士们和先生们，大会的代表：

我非常感谢大家对我的友谊和信任，您在选举我为这个高级职位的表示。这是对我的极大的荣誉和荣幸，以及协会的主席。我同样了解我身上肩负的职责和责任。

协会的事业不仅仅是促进新的融资。它是一个可被认为是不可调和的废物。它就不能被认为是任何可调和的废物。只看在我们自己的国家，对专业化和专业化的庸俗的， Compliance and cooperation which characterises our entire membership was recently implored upon me. When I asked the members, outstanding as you are, to serve as chairman of our national committees, I did not have a single declination. This wholehearted response strikes me as fittingly appropriate to the spirit of the work of this Association.

It was in the floor of the House, at the convention at Del Monte, Calf., that I first became interested in the I. B. A., and for two reasons: One, its fine objectives and high standard of ethics; the other, the kindred among its members. Many friendships started then have con-

seven men devoted to the I. B. A. have served as Presidents since that time. Each of them, in his turn, has done his full part of handling current problems before the Association, and all have helped to develop a relationship with the members which I am sure does not exist to such a high degree in any other industry.

And now I would like to comment briefly on our program for next year. The Association has important work ahead of it. We have a great opportunity to meet a number of other problems, and with all manner of government administration we must work together. The only way we can succeed is through cooperation. For example, the members of the stock exchanges, which is the number one national problem.

Let us be realistic about this. Since a resumption of capital financing is essential, nothing in our legislation, everyone must be interested in seeing that there is new financing. It might be well, in the future, to make the Association's objectives and policies perhaps more explicit, and to bring to the attention of the public the important work it is doing. It will be helpful to the Association, as well as the members, if it gives more attention to the tasks it has undertaken. It will be necessary to have a more active policy which can be touched upon.

Our number one job is to rev vie the investment banking business, not only because of the present depression, but for the benefit of everyone in the country—the working man, the farmer, the business man, the man on relief. The Association is a vital part of our national employment, which is certainly the number one national problem.

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Really Forgotten Man "Incurriculate Railroad Investor,"

True, the Brotherhood of American Railroad Commissioners, Committee of I. B. A. Under Chairmanship of Edward H. Leslie—

Which Would Make Railway Express Agency Truck Subsidy For All Carriers—Also Favors Contracts with Railroads on "Agreed Charge" Basis—More Effective Organization of Security Holders Urged

In its report dealing with the railroad problem, the Rail- road Express Industry, Education and Legislation Committee of the American Railroads and Transportation Association suggested several proposals to remedy the present predicament of the railroads in outlining "legislative measures which we believe would be far more practical, and therefore more desirable, if the matter were brought before Congress when Congress convene. The committee, of which its Chairmen is Edward H. Leslie of the American Brotherhood of Strouters, Co. New York, suggested as a remedy for the deintegration of the rate structure that the railroads of this country be perm-
itted to form associations with the railroad trucks service in successful operation in France, Australia and England, and has been approved by Canada with certain modifications. This plan to his theory of rate regulation, says the committee, is the same as the "agreed charge" and "in principle consists simply of a special rate granted by the carrier in return for a specified amount of the shipper's business."

With respect to truck competition, the report points out that the truckers, with or without law, "can be solved only part by part coordinating truck with rail service."
The Railway Express Service, the report notes, "is a logical development in truck and railroad war. The present committee asked, "What more logical development than that the railroads use the Railway Express Agency as the nucleus for owning and operating a system of intercity truck service?"

It added that, "If the draft of a law which would make the Railway Express Agency a State institution, the railway truck carriers is a thought deserving of the most careful consideration."
The report went on to say:

A start might be made by giving the Railway Express Agency, or its present interstate truck subsidiary, Railway Express Motor Transport, Inc., a certificate of public convenience and necessity to operate in all parts of the country. A development of this kind would be of far-reaching importance, for not only would it give the railroads a greater degree of flexibility and many additional time schedules, but it should restore much of their lost traffic.

As to the bringing about of a more effective organization of security holders, the report also approved the proposal by Messrs. W.B. Patton and D.M. Dunn, which would make the statement that the "really forgotten man is obvi-
ously a beginning investor in our railroad bonds, to a mortgage certificate on our railroad bonds."

There are at the present time three organizations whose purpose is to look after the interests of railroad security holders. These organizations are all concerned with the same problem, but as little progress has been made little progress has been made in the grouping of their membership. One of these groups is attempting to organize on a national basis, while another is attempting to form a kind of national group, while a third represents those who are interested in the transportation problem as a whole. These three organizations may overlap in a cer-

The report follows:

In considering the railroad problem, which is most emphatically still with us and which, according to our Group Committee, is fast losing its character as a political grotesquerie. The threatened strike of the railroad employees and return to the situation which prevailed during the time of the strike, are the consequences of the extreme poverty of this key industry to our whole economic health, and to our national development. It is expected that a special investigation made by three members of the Interstate Commerce Commission for the President would result in remedying some of the wrongs. However, this report does not look to a last-minute legislative jam in Congress prevented any progress on this vital problem until the next session of Congress, if at all. It is probable that the railroad industry, if it is organized and represented in Congress, will be able to secure legislation which it needs to reach a solution of its problems. But it appears that the President's message, "that they may serve as the basis for useful discussion when Congress convenes. While a number of legislative proposals are discussed, attention will be focused primarily on two suggestions which, if enacted into law, might go far in solving some of the most difficult problems of the railroads; namely, motor carrier combination.

Before discussing new laws, we must first agree on the causes of the present predicament of the railroads. Several volumes could be written to cover the whole situation, but without much doubt the problem of greatest con-

1. Freight rates as a whole have always been low, with one or two exceptions, a condition which for years has handicapped the railway industry.

2. The trend of railroad traffic, in comparison with the total volume of goods transported, has been downward, and the railways are moving continually a smaller proportion of the country's total traffic.

3. Railroad costs, particularly wages and taxes, have absorbed an in-
significant proportion of the revenues received.

4. Some of these problems have been expressed in the simplest terms possible; but a study of the facts reveals that they are complex and difficult.

Declining Freight Rates

The rate-making structure of the country is necessarily intricate, and it is not the purpose of this report to attempt to simplify the problem. However, there are certain major factors which make the question fundamentally more difficult. In addition to the complex nature of the basic problem, there is the difficulty, the fact that competition over

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A new type of railway enterprise, the so-called "small shipper" or "individual" rates, has been under discussion in recent years. These rates are designed to facilitate transportation for small or isolated shippers, who may not be able to afford the standard rates and charges. The key points to consider are the following:

1. Small shipper rates are offered to individual shippers who transport relatively small quantities of goods. These rates are usually lower than the regular rates charged to large shippers.
2. The individual rates may be based on a variety of factors, such as the volume of goods transported, the type of goods, and the distance traveled.
3. The small shipper rates are intended to encourage more businesses to use rail transportation, thereby increasing overall freight traffic.
4. The small shipper rates should be reviewed periodically to ensure they remain competitive and fair to all parties involved.

The development of small shipper rates is important for the railway industry because it can help attract new customers and increase the overall volume of freight transported. However, it is crucial to ensure that these rates are not unduly discriminatory and that all shippers, regardless of size, are treated fairly.

Let us consider the proposal from the shipper's perspective. The proposed rates are designed to balance the needs of the individual shippers with the efficient operation of the railway system. The rates must be sufficient to cover the costs of providing these services while remaining competitive in the market.

In conclusion, the small shipper rates play a crucial role in the railway industry, as they help to attract new customers and increase overall freight traffic. However, it is essential to ensure that these rates are not discriminatory and that they remain competitive. The railway companies and shippers must work together to develop and implement fair and effective small shipper rates that benefit both parties.
carriers which, theoretically, do not have to comply results in substantial

The Pettengill Hill, to eliminate a number of important restrictions under

The Act should once again be revived, and thus restore further control over

The report down to this point has attempted to discuss some of the

The reason why freight rates have shown a significant decline to a level that
gives the shipper a better chance to favorize goods shipped all over the
world. It does not seem to be asking too much for legislation able to
comprehend the problem, and to point out the trend in freight rates which has played a
important role in bringing the roads to their present

Dealing Trend of Railroad Traffic

The frequent downward adjustments of freight rates have not succeeded in
returning rates to those of 1920 or 1926.

Increased from 8,215,229 in 1919 to 10,318,421 in 1927.

The number of miles operated has decreased from 75,942,511 tons
freight on the roads of the United States to 50,027,918 tons
freight in 1937. The average road length in the United States has
produced a kilowatt hour increase of 3.571 pounds in 1919 to 4.313 pounds in 1927.

1. Interstate pipeline transportation of natural gas increased from 1937.  
2. Production of electricity by water power, with attendant displacement of coal, raised freight traffic line increase from 4,173,800,000 kilowatt
hours in 1919 to 43,072,000,000 in 1927.

3. Amount of fuel transported by railroad decreased from 13,276,776,000 in 1919 to 10,647,550,000 in 1927.  
4. Receipts by motor trucks of livestock at principal rail
 terminals increased from 2,458,771 million miles in 1920 to 4,157,400 million
miles in 1937.  
5. The number of operations by motor trucks of 25,449,924
in 1927 increased to 29,804,568 in 1937.  

While the increase in the number of operations by trucks has been

The following summary of these developments obviously cannot be remedied by the enactment of a few
simple laws, but at least something may be done about the increasing combination 
of motor vehicles, which is a political necessity, it seems.

Track Competition

This type of competition provides a flexibility and special type of
service which the railroads have had great difficulty in meeting as they are
handicapped today. It is obvious that, from the viewpoint of public policy, the
elimination of independent or non-railway trucking is essential if efficient service is
attainable through the use of motor carrier services, and regulation of the
trucks provided under the Motor Carrier Act of 1935 cannot unifiably banish
the truck truck competition problem. 

In the United States, the very

The Motor Carrier Act of 1935 was an important step toward permitting the railroads to acquire their
own truck lines and coordinate them with their rail service, and a number of important
railroads are now operating fleets of trucks. Already that short
experience has proved conclusively the many ways in which the use of the
highways by a carrier fits into the regular operation of its rail service and
gives the shipper a flexibility and dependability of service not provided by
either form of transportation by itself. It is unfortunate, however, that this
benefit has not yet been felt by the Interstate Commerce Commission,

"It appears that the three railroads by no means intend to confine the
use of trucks to the hauling of goods which industry or the public
wishes for immediate delivery, a fact that leaves no doubt of the desirability of
their present policy. Theirs is a more aggressive policy of road
operations. Their products operate to its own lesser advantage as a
motor carrier in service which is strictly competitive with rail operations
as well as in coordinated service. In fact they could hardly do otherwise in
view of the fact that each other competes as a truck carrier. It is also to be observed that they
are taking into account the possibility that the future may see
suitable order of competitive service to be established by acquisition of other
truck operating companies."

"I am satisfied that in the present stage of motor carrier development
such understanding is consistent with the public interest. It is true that
we have power to prevent a motor carrier so controlled from being used
to the destruction of the railroads, but this too much is a case of
understanding. Railroads, which have become used to
superior service can hardly be regarded as careful to the public interest.
Superior service means great expense, and the railroad can deny the
price to the public in competition between these two forms of transportation.
Is this a wise or equitable policy?"

"I am not persuaded by the argument that if the railroad
services its own interests and the public interest, and that the
end result is that if has yet come. I am not persuaded that it is essential to
the public interest that the end result is that if has yet come. I am not persuaded that the
end result is that if has yet come."

"It appears to be a restriction which the public interest hardly demands;
indeed, the only object that has apparently been achieved is to enable
some railroads to make a few profits on the expense of others, or common
or so-called 'final

"Since it is a primary intention of this report to focus attention on ways and means to
bring about a more complete accord between railroad and motorization, and I think the
reader may understate the present position of the railroads in the whole
transportation picture, and the public interest in effecting this
understanding, I am of the opinion that the agreement should be

The present agreement may be found in the fact that
the time of the railroad is likely to change materially, except over a considerable period of
time; many articles of unusual shapes or sizes which require special service are
being shipped; many articles of unusual weight or shape are being shipped and require special packing to prevent pilferage (of course, for instance); shipments which require special treatment or shipment in sufficient quantity to claim railroad loads, but not carload rates are now being handled by truck."

A survey was recently made which indicated substantial use of

I. B. A. Convention Proceedings

Nov. 5, 1938

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Volume 147  I. B. A. Convention Proceedings 2765

The railroads are one of the largest taxpayers of the country, and this burden grows year after year. If the railroads could at least tax themselves on their obligations, it would be possible to effect economies in the way of the regulatory bodies would cooperate with the railroads in speeding up the abandonment and unproductive facilities, the railroads, as they have long known, would be performing a service to nation, and the truck operation, it would also be most beneficial. But the unsatisfactory record of some railroad management, perhaps explained by the reasoning used by the Interstate Commerce Commission, may not be so light for the great railroads of this country as it is for the small ones. This point is brought out by Mr. St. Louis, and the status of our railroads, the country as a whole probably faces the greatest railroad problem of any other country in the world. The State and St. Louis is only one of many.

"During the past 10 years the mileage of all-year highways in the five States in which the_Minneapolis & St. Louis operates has been increased nearly 100 per cent. This is a great increase, but it is not in the slightest to be compared to the increase in railroads.

"The Commission has determined, upon what basis the competitive struggle among the various agencies of transportation—railroads, highways, riverways, pipelines, airways—shall be conducted. It is inevitable that the competitive struggle will be conducted on the basis of the forces which have a bearing on the competitive struggle which will go on without the railroads, ignoring for the present questions of rates and the law applicable to them. It is inevitable that the question of whether the highway is being properly developed and used in the interests of the public, whether the highway will develop under the competitive struggle, these are questions which the Commission has determined, and it is inevitable that the Commission will preserve them. For this Commission has pointed out to communities in many parts of the country that the highway is now the way to go along without the railroads, ignoring for the present questions of rates and the law applicable to them. It is inevitable that the Commission will decide in the first instance whether they could affect and control the competitive struggle on the highway, that is, the road which has existed for 100 years under the competitive struggle, and then to determine whether they could affect and control the competitive struggle on the highway, and then to determine whether they could affect and control the competitive struggle on the highway.

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Municipal Securities Committee of the I. B. A. Comments on the Draft of the Minimum Tax on State and Municipal Bonds—Remarks as to Whether or not It Should be Submitted to States for Decision When Presented by the Legislative and Administrative Commissions in States

The Municipal Securities Committee of the I. B. A. under the Chairmanship of H. E. Wood of the Chase National Bank of New York referred in its report to the question of a minimum tax on state and municipal bonds. As Roosevelt's message to Congress early this year proposing the termination of such exemption in the case of State and municipal bonds, and the President's letter to the Committee at the Convention. Mr. Linen's Committee in referring its position, holds that the matter is one "which should be included in the consideration of the government for the purpose of its tax policy, as such may be determined in the light of future needs and the welfare of the tax-paying public."

In large part the report follows.

By way of prefatory note of long-term municipal issues during the period ending Dec. 31, 1934, the following table shows the amount of such issues net of exemptions:

<table>
<thead>
<tr>
<th>Date</th>
<th>Yield</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1932</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1933</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1934</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Of interest, we believe, is a review of the market status of the above as of the first day of each month during the past five years. This information has been compiled from the "Bond Buyer" for the above months.

The report of the President's Message to Congress showed that the President believed that in the case of the railroad bonds the tax problem, if any, and the matter of the tax rate, if it should prove to be necessary, would be left to the States for determination in the light of constitutional amendment.

It is the purpose of this section to present a brief review of the status of the railroad bond market and the tax problem thereon.

Organizations by Security Razors

The more of the studies the railroad bond market, the more obvious it becomes that the railroads are the really unfortunate victims of two, and possibly three, sets of legislation. First, the Railways Reorganization Act, which was enacted at a time when the railroad industry was in the worst possible financial strait. The result is that the railroad industry has been compelled to cover a large amount of its railroad bonds. Second, the railroad industry has been compelled to engage in "pooling" of traffic, and, while the "pooling" is not the exact same thing as the pooling of traffic as defined in the Taft-Hartley Act, it is, however, very similar in effect.

The Association of American Railroads was an attempt by the railroads themselves to work out, in their own way, many of these problems, and while the depression may not have given them a fair opportunity to make much progress, it also appears that the self-protective interests of many of the larger and stronger roads will automatically prevent railroad action as long as railroad bondholders continue to be interested in the future.

The report of the Federal Reserve Bank of St. Louis shows that the railroad market has been in a state of transition. There have been more sales than purchases, and the volume of sales has exceeded that of purchases. The report notes that the railroad market has been in a state of transition.

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informed the
Committee on Taxation in works
raising revenue and go to the very fund scar of our
government and the
educational expenditures are to be
decracy."
In view of comparatively recent developments we now submit to the Board of Governors another resolution in the form appended to this report with the same view for its favorable consideration and adoption by the assembled convention.

Information Concerning Tax Exempt Securities

During August and September the U.S. Treasury Department issued a booklet containing the results of a study it had made of "Securities Exempt from the Federal Income Tax" as of June 30, 1927. This survey evidences an exhaustive examination and compilation of material relating to the subject. It will be found of value to those interested in governmental financing and the tax law.

<table>
<thead>
<tr>
<th>Type of Security</th>
<th>Total</th>
<th>Face Amount</th>
<th>Payable in</th>
<th>Forfeitable</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States Government</td>
<td>$35,925,000</td>
<td>$105,925,000</td>
<td>$27,732,000</td>
<td></td>
</tr>
<tr>
<td>Federal Reserve Banks</td>
<td>$19,152,000</td>
<td>$19,152,000</td>
<td>$19,152,000</td>
<td></td>
</tr>
<tr>
<td>Territorial &amp; local government</td>
<td>$9,654,820</td>
<td>$35,391,700</td>
<td>$32,798,000</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$85,614,000</strong></td>
<td><strong>$55,501,000</strong></td>
<td><strong>$85,472,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

*Estimates.*

An appendix reflects the Department's estimate of holdings of tax exempt securities by various governmental bodies, the Federal Reserve banks and by other financial institutions including trust companies, banks, insurance companies, corporations, etc.

We understand that there is presently being prepared a somewhat similar estimate of the amounts of State and municipal bonds held by various classes of investors. This is being done by Mr. Carl Chaiters, Executive Director of the Municipal Finance Officers' Association and Mr. A. M. Hillhouse, who up to recently was associated with that organization.

Other sources of information and compilations are being made. In all there will be a wealth of material available.

U. S. Supreme Court Decision

On May 23, 1928, the Supreme Court decided in the case of Helvering v. Gerhardt, et al. in which it held that the salaries of certain employees of the Federal Government who are subject to the Federal income tax are exempt from the application of the Federal income tax. The Court points out that it has never ruled expressly on the precise question whether the Constitution grants immunity from Federal income tax to compensation received by employees of the Federal Government for services rendered in the State of the service, of the character ordinarily carried on by private citizens. The Court says: "When income is paid to private persons, it must clearly appear that the burden upon the State function is not constitutionally permissible."

In conclusion the Court said: "If, then, whether a Federal tax may be imposed upon the Federal Authority itself with respect to its revenue of income or in some other manner, it remains open for the Federal Government to involve itself in the Federal Authority itself, in such manner as to be obstructed to any function essential to the continued existence of the Federal Government. The question is whether the income of the United States may be called upon as a source of revenue by which the Federal Authority itself may be taxed.

We have repeatedly held that the Federal Government has the power to tax its employees, and a tax on them for their salaries is, therefore, controlled under the Federal Constitution. The measure cannot be applied to the salaries of employees subject to the Federal income tax.

We have held that the Federal income tax does not apply to employees of the United States who are not subject to any other tax without the Federal Government's consent.

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We will not attempt here to outline various problems that are created by local taxing agencies, but merely call attention to the form of homestead exemption existing in Iowa. This was pointed out by your committee in the Senate Journal in 1921, and at the same time you knew, if a State insists upon having homestead exemptions, may be considered as a model which should not disturb the credit position of the counties. It was held that any attempt to fix an annual homestead credit of $2,000. These are levied against individual property of the various taxing jurisdictions, and the manner in which the tax is turned over to a Homestead Credit Fund and the amounts available in this fund are distributed is a matter of considerable importance. Nonetheless, the credit against such taxes is limited to 25 mills on the $2,500 of valuation as an average assessment, except for certain home-owners, e.g., those over 65 years of age and those whose income is less than $2,000. The same rule is applied against individual property of the various taxing jurisdictions, and the manner in which the tax is turned over to a Homestead Credit Fund and the amounts available in this fund are distributed is a matter of considerable importance.

During the fore part of this year it was proposed in Congress (8, 3rd Sess., 220) that the Constitution of the United States be amended upon recommendation of the joint committee of the legislatures of the several States as follows:

**Article**

Section 1. The homestead of any head of a family, male or female, or of any dependent thereof, the possession of which is necessary for the support of himself or herself shall be exempt from taxation upon the value thereof not exceeding $3,000, and the value of any other property owned by any person above the age of 65 years, or permanently disabled by reason of injury, shall be assessed and taxed at a rate not exceeding 50 per cent of the rate on such other property owned by any person below the age of 65 years, provided the tax on such other property is not less than 50 per cent of the tax on such homestead.

Section 2. The Congress and the States shall have power to enforce this article by appropriate legislation. It will be noted from the Article that the exemptions do not apply to taxes required to pay State, county, municipal and district bonded debt obligations or taxes levied on the date the amendment is adopted.

As a bearing on the resolution before a subcommittee of the Senate Banking and Currency Committee, Senator Morris strenuously opposed this aye against the proposal in behalf of the proposal the assertion that in Texas the total of homestead values eligible to be exempt from the taxation of the total property assessed for taxation and less than 5 of the total lawful taxable property is within the State as next to nothing. The relation of the homestead to taxation is exclusive a matter for the States to determine.

The answer to this is that the American people own all our government property and depend on it for their pleasure by way of constitutional procedure, to serve the general welfare and to preserve our freedom. If we insist upon having the States to determine what it is free to determine, each for itself, what shall constitute a homestead— something must be left to the judgment of the officers of the State under the limitation provision of the Constitution. He also pointed out that the amendment proposed by the Senate committee would create an additional expenditure of taxpayers to tax to a personal exemption of a minimum of exemption of $5,000. Any State will be free to fix one homestead above $5,000 if it so desires.

It is evident that the proposal for the Senate Committee would dominate the homestead provision of the Constitution of the State Supreme Court. We are including only such of these as are believed to be of interest to the trade in general or of specific significance locally.

The Courts of this State, in a comparatively recent decision rendered in the case of W. P. Herbert v. T. M. Perry, et al., respecting a suit for the collection of tax upon a certain homestead warranty payable solely out of the gasoline derived from the State, held to the effect that these warrants may be issued without regard to the debt limitation provision of the Constitution. Considerable interest developed in certain quarters of the municipal bond trade as a result of this decision. Attention was centered, however, on the point of view presented by Justice Joel Brown of the court who, in a dissenting opinion, held to the effect that the warrants are a debt of the county under the limitation provision of the Constitution. He also pointed out that it is clear that these warrants are not purely a personal exemption of a minimum of exemption of $5,000. Any State will be free to fix one homestead above $5,000 if it so desires.

During the July 7, 1931, the Supreme Court of the State of California by a 4 to 1 vote reversed the decision of the Los Angeles Supreme Court of the State of California by a 4 to 1 vote reversed the decision of the Los Angeles Supreme Court of the State of California. The appeal was to as a rule be determined by the higher court. The decision is that creditors were entitled to judgment for payment out of the $3,000 of property which was said to be homestead exempt. The decision is that creditors were entitled to judgment for payment out of the $3,000 of property which was said to be homestead exempt. The

**Federal Reserve Bank of St. Louis**

Arias—At the coming election in this State voters will have the oppor-
tunity to express their opinion either for or against the issuance of cer-
tain bonds necessary to the public welfare. It is true the law provides that the issuance of such bonds shall be made after the adoption of a proposition to that effect, as specified in the state Constitution, which briefly, provides that all homes occupied by the owner shall be exempt from taxation for a period of five years from the date of their issuance. But, whether such a proposition shall be submitted to the voters or not is a matter of public opinion, as to whether such proposition would apply to bonds issued prior to the enactment of the proposed amendment.

Another proposal, known as the Nevada Irrigation District Bond Act, provides that any bond which shall be issued for the purpose of financing any project, if passed, shall be credit on the credit position of the State and its various subdivisions. A measure of this kind, as the Garrison Bond Act, is designed to establish a first rank lien upon the proceeds of any bond issued for all public uses and purposes by any subdivision. Another measure of this kind, the proposal of the State and its various subdivisions, is of, very unusual.

Among the proposals in this State which are now being considered by the citizens will have to decide about 23 different propositions of which no fewer than 19 are attempts to affect the financial condition of the State or another subdivision. In addition to these, the proposals of the State and its various subdivisions are of marked significance to all interested in municipal financing. The quality of the bond issued under the Act, if passed, would probably reduce many unsound projects which in many cases would constitute a form of governmental debt which the State now feels a great deal to the fact that the State must have been at the end of the term of the measure must be accepted by the State and its political subdivisions in payment of taxes, license fee, etc., and the State now feels a great deal to the fact that the State must have been at the end of the term of the measure must be accepted by the State and its political subdivisions in payment of taxes, license fee, etc., and in payment of all other debts or obligations due them. This quite obviously would destroy the value of governmental taxing power which is the basis of municipal credit.

Another measure that naturally arise with respect to this plan is whether the provisions of it, of sufficiently vital importance, are contrary to the Cali-
foria constitution to the extent that they nullify the act. Whether this scheme would constitute a form of governmental debt which the State now feels a great deal to the fact that the State must have been at the end of the term of the measure must be accepted by the State and its political subdivisions in payment of taxes, license fee, etc., and in payment of all other debts or obligations due them. This quite obviously would destroy the value of governmental taxing power which is the basis of municipal credit.

Kentucky—At a special session of the Legislature this year a measure known as the Kentucky Bond Act is now pending for consideration of the effect. The finances of several counties in Kentucky with respect to certain of their outstanding obligations have been in a bad shape for some time past. By this Act the Department of Revenue of the State is empowered to investi-
gate the county administration and negotiate with the county officials for their creditors for an appropriate solution. It should mean a great deal to Kentucky and its creditors of the bonds affected if these situations can be handled.

Louisiana—At the regular session of the Legislature there were a number of bond proposals for new bonds and proposing constitutional amendments which are to be voted upon by the electorate on Nov. 8. Among the pro-
posed bond proposals are several constitutional amendments and tax measures.

New Jersey—Among various enactments in this State one of particular interest is the Municipal Finance Reform Act, which was adopted by the General Assembly on May 17, 1928, amending the law relating to investments by fiduciaries. The act was passed by both Houses of the Legislature, and approved by the Governor. Under this act the citizens of New Jersey have been authorized to invest the debt of the State. It represents a very much improved and should be helpful in overcoming certain legal difficulties and troubles.

The new regulations of the Comptroller omit any reference to rate transactions. The revised procedure in bank examinations, however, in its definition of Group I securities specifies that "the four highest rated obligations of equivalent value." Group II securities includes "general market obligations in grades below the four highest, and unrated securities." Provision is made for valuing securities in Group II at the "average market price for the current week." The depreciation in property of "inconsistent grading of the net depreciation will be deducted in computing the net sound capital.

Special Committee

In an effort to secure adequate disclosure of all material facts and supplementing the report on General Cir-
cular Recommendations for Municipal Securities, the Committee of the Board have decided to point out more clearly the various steps which have occurred and form an idea of the degree of uniformity in presentations to be practiced. Following the recommendations of the Board, the Committee of the Board of Governors provided, however, that in any such pronouncements, statements, reports, advertisements or announcements which shall represent the views of the Municipal Division solely when the Board has authorized that Division to speak for the American Bondholders' Association.

Investment Securities for Banks

As of July 1, 1928, there became effective revised investment security regulations of the Comptroller of the Currency and revised procedures for bank examination and control, and the Board of Governors of the Federal Reserve System, the directors of the Federal Deposit Insurance Corporation, and the Comptroller of the Currency. These reports may be found to be better suited than the form now generally followed.

In the next annual meeting of the Committee, Mr. John L. Barlow, will be included in the report. Mr. Barlow has had considerable experience in the work of the Committee and has communicated with about 45 others in an effort to arrange for the inclusion of the facts in the report. The report will be issued as soon as possible, and will be ready for distribution. Respectfully submitted.

MUNICIPAL SECURITIES COMMITTEE

Chairman: J. A. C. Malvern

John L. Ballman

John L. Kenney

Henry A. Burcham

Francis B. Childress

James D. McGehee

Basil H. Adolphson

James H. O'Farrell

Frank E. Currie

J. M. Maxwell

Robert S. Dickson

Daniel G. Nose

F. P. Parrell

James F. Quigg

Malvern B. Johnson

Clyde W. Potter

Paul H. Carpenter

J. D. Robinson

Robert Hill

Dover Mills

Norman W. Deeds

P. W. Willey
Report of Industrial Securities Committee of I. B. A. for 1938


The full report is now available for download through the Federal Reserve Bank of St. Louis FRASER database.

The Industrial Securities Committee, under the chairmanship of K. W. Weilgenthe, examines the importance of future industrial investment. The function of the committee is not to recommend specific investments, but rather to highlight the importance of considering future stability and political conditions.

The committee notes that the volume of industrial financing in the year ending September 30, 1938, was approximately $900,000,000 less than that of the preceding year. This decline is attributed to the general economic conditions and the nature of the previous year's economy.

The committee observes that the investment banker's role is to help investors make informed decisions regarding the future stability of investments and the political conditions.

Respectfully submitted,

Industrial Securities Committee

Committee Chairman

Henry M. Baseman
Arthur E. Eustere
Charles E. Macaulay, Jr.

Respectfully submitted,

Committee Chairman

Henry M. Baseman

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Henry M. Baseman

Respectfully submitted,
The attitude of Securities Commissioners toward legislative measures is one of "constructive and helpful," says the report of the State Legislation Committee of the Investment Bankers Association, headed by Jay T. Dunbar, Deputy Governor of the Federal Reserve Bank of Boston, Massachusetts. With nine state legislatures in session during the year, three—Kentucky, Massachusetts and Virginia—amended their securities laws, according to the Committee, whose report follows:

Nine state legislatures have been in regular session since the last convention of the Association.

Kentucky
New Jersey
New York
Ohio
Massachusetts
Rhode Island
Mississippi
South Carolina

Of these, Kentucky, Massachusetts and Virginia amended their securities laws.

In New York, two bills of importance were introduced and passed by the appropriate sections of the Penal Code and relating to broker and dealer transactions in securities.

In a number of States, special sessions of the legislature were held during the year. Most of these, however, appear to be an observable general trend in certain principles. The most important of these is the trend toward uniformity as advocated by the uniform securities laws, and further consideration of this trend will be given to those amended provisions by those interested in the laws of these respective States.

General Trends of Legislation

When securities legislation is by amendments and more or less sporadic, it is difficult to attempt to visualize any general trend that may be evident. However, there appears to be an observable general trend in certain principles. The most important of these is the trend toward uniformity as advocated by the uniform securities laws, and further consideration of this trend will be given to those amended provisions by those interested in the laws of these respective States.

It is the opinion of the Committee that the tendency toward uniformity is here to stay, and that it is of such importance that all States should adopt uniform laws, and that these should be kept under constant review and modification, if necessary, by the National Association of Securities Commissions, if for no other reason than in order to promote uniform treatment of similar situations, to make it possible for States to adopt an amendment to their law, which has been adopted by other States.

The Committee finds that the tendency toward uniformity is here to stay, and that it is of such importance that all States should adopt uniform laws, and that these should be kept under constant review and modification, if necessary, by the National Association of Securities Commissions, if for no other reason than in order to promote uniform treatment of similar situations, to make it possible for States to adopt an amendment to their law, which has been adopted by other States.

Report of State Legislation Committee of L. B. A.

The committee, consisting of members of the State legislation committee of the National Association of Securities Commissions, recently reported its findings, which are as follows:

Report of State Legislation Committee of L. B. A.

The Federal Reserve Bank of St. Louis

As an appendix to its report the State Legislation Committee furnished a summary of the States of amendments to State Securities Laws during 1938.

Report of State and Local Taxation Committee of L. B. A.

The fact that "only 13 State legislatures met in 1938, and of these only nine have adopted any new tax measures," is not to be construed as a failure on the part of the Federal Reserve Bank of St. Louis, as indicated by the report of the State and Local Taxation Committee of the L. B. A. to state that "the year 1938 can be classified as a fortunate one for the States in the extent and the political subdivisions.

It adds that "the many tax laws already on the statute books of the 45 States are an extremely heavy burden on real property owners in the States, and the general agreement is that this is the case even to the extent of taxes that are levied for the general welfare, to the extent of taxes that are levied for the general welfare, to the extent of taxes that are levied for the general welfare.

The Arkansas Federal Reserve Bank in special session last March, but no legislation of consequence was enacted.

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A special resolution of the Georgia Legislature met last November and carried through until February of 1938, enacting several measures affecting tax revenue:

1. A road and bridge tax was enacted on real property at a $2,000 value. The $1,000 road and bridge tax and $1,000 street improvements tax were removed from the valuation list and placed in the new tax rolls. The $1,000 paid on all direct gifts to banks. This resulted from the determination of a resident, decision of the minimum tax which the tax Assessors were able to levy and determine the area, the tax and levy was increased by 25% of the land tax and other taxes on the tax rolls. This is in addition to the tax levied by the State or any political sub-division, up to $4,000 of the assessed value. Additional measures were passed to force the State to reimburse the various political subdivisions for the loss of tax revenue occasioned by this Homestead Exemption law, although no new revenue measures were reported during the sessions of the legislature in January, 1938. The only new revenue measure enacted was in the form of a franchise tax on banks.

2. A tax of $20 per roll was levied on petroleum ads.

3. A new tax of 15% on all retail sales except products sold by the producer.

4. A constitutional amendment relating to the sales tax on motor fuel was proposed by the Legislature, and was voted on by the people in November.

The regular session of the New Jersey Legislature, meeting in January, 1938, failed to enact any new revenue measures. The New Jersey Legislature met in regular session in January, but failed from measures designed to clarify existing tax laws, passed unanimous and existing revenue legislation.

Several special sessions of the Ohio Legislature carried on from November, 1937, through June of 1938, but no new tax legislation was enacted. A special session of the Idaho Legislature in January, 1938, failed to make any changes in the existing revenue laws of that State. The Kentucky Legislature, meeting in January, 1938, made no changes in the existing revenue laws of that State. The Legislature of the State of Virginia, in regular session in January, 1938, but failed to enact any new tax legislation.

Constitutional amendments to be voted on in the general election in November, 1938, provide for a number of States, and many of these proposals, were, in view of the homestead exemption laws in the various States, and in some States, new revenue proposals were offered. Among these new proposals were:

Two large cities invaded the sales tax field in 1938. Philadelphia enacted an ordinance in March levying a 5% sales tax on all products allowed on sale of food, medicines and certain services. New Orleans enacted an ordinance in July levying a general sales tax of 15%, exempting farm products and certain commodities sold by the utilities.

In view of the fact that only 15 States Legislatures met in 1938, and of the many new tax measures adopted in a number of States, and many of these proposals, were, in view of the homestead exemption laws in the various States, and in some States, new revenue proposals were offered. Among these new proposals were:

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"Inflation," "Split Commission," "Permissive Incorporation," "Investment
Commissioners."

The following article dealing with investment banking in a more general
way, most of them especially selected with a view of providing instructive
material to the Committee, has been prepared by a number of the

was directed, in the opinion of the committee. With this purpose in view,
assumption of the responsibility of the Board lawfully granted in the

on cash subscription of $1 a year to employees of member houses and others
not eligible to obtain it under the policy whereby it has been sent upon

and asked for a continuance of the committee that its work might be further pursued
during the year 1937. The committee also continued its practice of making

to make such revisions in these tentative drafts as to the committee appeared

The committee is pleased to say that all concerned now seem to be in accord as
to the great value, as of such simplification and uniformity as may be possible
in view of the purposes of the respective laws.

The new drafts, these changes not reaching the point where it is possible to
for educational purposes now, although we hope to correct this by inducing

College and public libraries.

Forms of Uniform Security Acts. A tentative draft of uniform forms and

of J. Weller Kimball, Gorton & Co., Chicago, follows:

Some progress during the year in the matter of uniform
forms was noted by the Special Committee on Uniform
Forms of Security Acts. Mr. Fuller of the Investment Bankers
Association, in connection with which it was pointed out that
nothing concerned now seem to be in accord as to the great value,
and some supervisors as to the wisdom as may be possible."
The report of the committee, under the chair-
manship of J. Weller Kimball of Gorton, Gorton & Co.,
Chicago, follows:

The Special Committee on Uniform Forms is pleased to report some

progress during the year, although not as great progress as may have been hoped for.

Prevailing conditions have not been such as to afford the most favorable opportunity for the further perfection of the sub-

jects of the committee's labors during last year. All are familiar with the small number of issues during the first part of the year, of wide distribution and requiring registration in a number of States. This has had the very

natural effect of slowing down the active interest as well as the opportu-

nities for suggestions of specific wording. Moreover, the work of the State security commissioners has felt justified in going slowly but

surely, according as experience and the rule of trial and correction permitted. Certain things, however, have been accomplished during the year.

Early in the year the Commissioner of Michigan promulgated a very

simple form for the use of the Chase National Bank, under which

issues were being registered with the Securities and Exchange Commission. This form calls for the submission to the State Com-

missioner of modifications of the facts. Since all nations have a certain "capacity to pay," the crucial problem is not whether the bond is readily salable

than "the capacity to pay." Each debtor seeks to enlarge the list of "indispensable" services, which even the creditors would agree must be paid before meeting its other obligations. A substantial part of the incapacity to pay is due to inserting the increasing expenditures for arma-

the holding of the "indispensable" services. In the present state of world affairs, the desire of some nations for a certain amount of arma-

is certainly understandable.

The question of a satisfactory readjustment always comes back to the

necessity for bilateral negotiations in an atmosphere composed of "will to pay" on one side and accommodation to present realities on the other.

Such discussions have resulted in several acceptable proposals during the past year, and may give hope to substantive progress during the next year.

It is useless to try to lock for any one formula to apply to all debt readjustments. The resumption of a reasonable payment in dollars is what interests those in receipt of foreign dollar payments. A resumption of payments toward a resumption of dollar payments, it seems to the committee that these countries should be able to purchase the foreign debt which has been accepted, it should improve the market demand for outstanding bonds by encouraging buyers who may have been deterred by the high yields from the debtor's point of view, it avoids to the same extent the transfer problem.

At reported in "Investment Banking" for June 10, the Board of Govern-
ners decided at its spring meeting to discuss its as of Aug. 31, 1938, any contribution to the Institute of International Finance. New York Uni-

has announced that it will continue the Institute as an inde-

pendent research activity of its own to deal with domestic financial problems, as well as with foreign financial problems to which it has been devoted in the past. The Institute has already issued a bulletin on "The Government Bond Market and the Banks," and has projected for the rest of the year nine other bulletins on topics such as "The Gold Problem," "Inflationary Finance," and "The Practices of Foreign Exchange Devaluation." It is believed that the bulletin will continue to be of great interest to members of the Association, who are urged to continue their subscriptions.

Respectfully submitted,
FOREIGN SECURITIES COMMITTEE,
CARLTON P. FULLEr, CHAIRMAN.

Report of Government and Farm Loan Bonds

The Government and Farm Loan Bonds Committee of the I. B. A. presented in its usual comprehensive form its report relative to public debt, including Federal debt, Treasury financing, special issues, &c. Regarding the pub-
lic debt, we quote as follows from the report:

On Sept. 30, 1938, the total gross debt of the United States Government as reported in the monthly financial statement of the Bureau of the Budget was $38,392,755,310, an increase of $1,517,618,419 over the reported total gross debt on Sept. 30, 1937. Of this amount $37,849,985,493 represented
Robert G. Roese of the Guaranty Trust Co. of New York is Chairman of the committee.

The Resolution of Investment Bankers Association on Elimination of Federal Tax Exemption in Case of State and Municipal Securities—Opposition to Any Maturing Proceeds Reciprocal Tax—Other Than by Constitutional Amendment

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Investment Bankers Association to Conduct Essay Competition to Encourage Research Study of In

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On Oct, 29, the Investment Bankers Association at the close of their convention at the Hotel Statler issued the following resolution regarding the proposal for Federal legislation to tax State and municipal securities:

Mr. Wood is head of Harold E. Wood & Co. of St. Paul.

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Report of Investment Companies Committee of the Investment Bankers Association, of which Earle Bailie of J. W. Selegman & Co. of New York, is Chairman, stated that a survey made by the Committee of the Investment Bankers Association and the Securities and Exchange Commission that committees of investment company managers be formed. Under the "SEC Investment Company Study," Mr. Earle's Committee says:
Officers Elected at Annual Convention of Investment Bankers Association

As indicated in another item, Jean C. Witter of Dean Witter & Co., San Francisco, was elected President of the Investment Bankers Association on Oct. 28. The following are the other officers elected for the coming year:

First term, closing session of the convention:


1939 Convention of I. B. A. to Be Held at Del Monte, Calif., Oct. 9-13

Following the address by the retiring President, the new President of the Investment Bankers Association, Jean C. Witter, in which he expressed the hope that the 1939 Convention of the Association would be held at Del Monte, Calif., it was decided at the meeting just concluded to hold next year's convention at Del Monte, Calif. In the decision on the fixing of the date and place for the annual meeting has been determined at the spring meeting of the Association's Board of Governors.

A. S. Embler Elected President of Savings Bank Association of New York State—Action Taken by Delegates at Convention

Albert S. Embler, President of the Walden Savings Bank, Walden, N. Y., was elected President of the Savings Banks Association of the State of New York on the final day of the convention held in New York City on Oct. 26. The retiring President was Andrew Mills Jr., President of the First National Bank of New York City. Vice-Presidents of the Association representing the several geographical groups are: Charles Diebold Jr. of Buffalo; Robert B. Waig and A. F. of Albany, Robert Louis Houguet of Manhattan and Richard J. Wulf of Brooklyn. The convention of the Association embraced five business sessions during the six-day cruise and the meetings were devoted exclusively to the discussion of the major problems in which savings bankers are interested.

Regarding the action taken by the convention, an announcement was made by the Association's President:

The convention took affirmative action looking toward the establishment of a cooperative retirement plan for officers and employees; voted to continue its contribution toward the building fund of the National Savings Bank; and voted in favor of the Government's extension of Federal laws to cover savings banks until the Federal laws might extend to the public; voted in favor of the development and expansion of the Government's Federal Savings program as a result of its extension to the Federal Savings and Loan Associations; and voted in favor of the Government's extending the Federal Savings program to the National Banks.

The convention also decided to seek permissive legislation which would allow savings banks to extend personal loans to the public in some form of service that was needed. The contributions of the outstanding president and executive committee in suggesting to the American Bankers Association the possibility of action which would prohibit Federal Savings and Loan Associations, Federal credit unions and similar Federally chartered financial institutions under the supervision of the Comptroller of the Currency.

The subject of Savings Bank Life Insurance was discussed at some length and it was voted unanimously to hold a further meeting within a few weeks at which time it is hoped the banks may reach a final decision as to the most appropriate action in this regard.

Some 420 savings bankers and their guests enjoyed both the business sessions and the social affairs of the cruise, which was sponsored by the New York Savings Bank Association.

An item bearing on the six-day cruise convention appeared in our issue of Oct. 22, page 2477.

New York Chapter of Financial Group of Special Libraries Association to Hold First Meeting of Year Nov. 7

The first meeting of the year of the New York Chapter, Financial Group, of the Special Libraries Association will be held on Thursday, Nov. 7, at 10:30 a.m., at the offices of the New York Life Insurance Company, 80 Pine Street.

In our issue of Oct. 29, page 2920, the following speakers will appear on the program:

Erie Bankers Association, Board of Governors of the Federal Reserve System and Chairs, National Financial Group, will give a two-way talk on:

1. Financial Group Plans for the Year
2. Federal Reserve Board, Library
3. Mary Hayes, Librarian, National City Financial Library, will speak on the subject, "How the Treasurer of Government Securities has been used in the National City Financial Library."
4. "We Do This," by Frances A. G. Becker, Chicago, and Allen E. Van Couveringen.

The Boston pointed to the airplane industry as one which probably would do considerably of this business, and to provide expansion to meet armament orders and needs of growing air travel.