Final Edition

ESTABLISHED OVER 100 YEARS

In 2 Sections—Section 1

The Commercial and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Volume 158 Number 4192 New York, N. Y., Thursday, July 8, 1943 Price 60 Cents a Copy

"Thinking Now"

"The many letters already received from editors and publishers indicate that keen interest has been aroused by our advertisements urging the necessity when the war ends of 'a just and durable peace,'" Robert C. Stanley, President of The International Nickel Company, Inc., writes the Editor of the Chronicle.

Robert C. Stanley

The advertisements to which Mr. Stanley refers have been running in the Chronicle and elsewhere during the past few months.

"Fighting now is winning the war . . . Thinking now can win the peace." This is the keynote of new copy the Company is using in its advertisement.

"If the world is to prosper, there must be the same cohesion among the United Nations during the transition period and thereafter as now exists during the world-wide conflict," the company believes. "Internal stability

(Continued on page 104)

In This Issue

Special material and items of interest with reference to dealer activities in the States of Illinois and Wisconsin appear in this issue.

For Illinois see page 102; Wisconsin, page 104.

Managing A Business For Stockholders Through The Vicissitudes Of Inflation

By DR. IVAN WRIGHT

Professor of Economics, Brooklyn College

Inflation or monetary changes which cause rising prices and increase the costs of doing business are matters of grave concern to everyone interested in the success of corporations. The seasoned management of a corporation knows that changes in prices and costs are major factors determining the profits or losses. An alert management is quick to respond to proved information bearing upon changes in the prices of raw materials and finished goods, consumer buying power, wages, taxes, tariffs, money rates, the cost of capital expansion and replacement, and all similiar changes common to the ordinary ebb and flow of economic activity in business. Research and action upon these changes in costs and prices affecting a corporation's business and profits are among the most difficult problems of the management. Small corporations and other small businesses cannot afford to spend too much time and money on this part of the management. The managers of such enterprises either follow the lead of their larger competitors or merely speculate on the future of costs and prices, and take such action as they think will turn out best. An experienced management will follow the sign posts of change as he has observed them during his past trials-and-errors. But when inflation and deflation are added to all the other uncertainties of business, the management has new complexities from which few corporations have ever escaped unscathed. Nevertheless, there are rules and policies to follow which will reduce losses and the management can bring a corporation through such a period in a relatively sound condition prepared to resume profitable business when economic and financial adjustments are ready for it. In some instances

Dr. Ivan Wright

(Continued on page 106)

Advertising In Post-War Era Must Combat State Socialism

John E. Wiley Declares Advertising's Hardest Job Will Be Creating Responsibility For Good Living

Two new functions which the advertising profession should assume in the post-war era are combating the sweep of state socialism by improving the performance of capitalism and "productionizing" or industrial leadership, John E. Wiley, Vice President of Fuller & Smith & Ross, Inc., New York, declared the latter part of last month. Mr. Wiley spoke before the war advertising conference of the Advertising Federation of America at the Waldorf-Astoria Hotel in New York City.

J. E. Wiley

Advertising's biggest peacetime job, Mr. Wiley said, will be the competitive selling of the additional products which our enormously increased industrial machine will produce. However, he pointed out that "advertising's hardest job will be creating and maintaining a political state of mind through boom periods and recession that is understanding of and helpful to business development . . . a state of mind that rests on the firm foundation of a recognized industrial responsibility for good living in America." Mr. Wiley added:

"Creating a favorable environment for business is going to be a hard job because it's a brand new job, not only for advertising men but for all businessmen. It's also going to be a hard job because we will have to conduct a

(Continued on page 114)

Bank Of International Cooperation: A World RFC

In an article published in the "Chronicle" of June 24, bearing the above caption, Rep. Charles S. Dewey (Rep., Ill.), a member of the House Ways and Means Committee, criticized the Keynes and Morgenthau currency stabilization plans and proposed a "Bank of International Cooperation; a World RFC," as a method of rehabilitating the financial and economic strength of other countries after the war and maintaining equilibrium of their international trade balances.

Since publication of the article, the "Chronicle" has received various comments regarding the program suggested by Mr. Dewey. These are published herewith:

E. E. MacCRONE

President, American Industries Corp., Detroit

I want to send a word of commendation for the views the Honorable Charles S. Dewey expressed in his article, "A Bank of International Cooperation," in the current issue of your publica-

(Continued on page 121)

For index see page 127.

Willis Says Subsidies Delusion Not Solution

Warns Food Subsidies Will Not Balance Topheavy Economy

Fed by a constant stream of statements from Washington, a serious delusion is growing that there is only one way to prevent runaway inflation in America and that is by the application of huge subsidies to the food industry, according to Paul S. Willis, President of the Grocery Manufacturers of America, Inc.

"The principal confusion lies in the fact that food subsidies are put forward as a complete cure for all of the economic ills on the home front," Mr. Willis said, "whereas they really correspond to frantic first aid treatment of the economic disease of inflation. Subsidies may appear to be a quick surface cure, but they do not prevent the real causes of inflation, they actually aggravate them.

Paul S. Willis

"The determined advocates of food subsidies are trying hard to give the impression that all who oppose them are in favor of inflation. In this way they attempt to confuse the public on this complicated and seldom understood subject.

"Inflation is an unhealthy condition which results when the various factors in our national economy get out of balance. Subsidies are one method of partial adjustment of that condition. The issue before the government and people of this country is . . . do we or do we not want inflation. Do not be misled into thinking that the real issue is do we or do we not want subsidies. There is a vast diference.

"The entire food industry is determined to secure effective control of rising prices. It is cheap cynicism to say that this industry wants higher prices. Runaway inflation is bad for everybody. Nobody stands to lose more than the food industry if prices are not regulated and nobody is making

(Continued on page 116)

Anti-Windfall Joker

By PAUL BAUMAN *
Member of the New York Bar

Contrary to general opinion the new tax law popularly known as the "pay as you go" tax bill does not by any means effect a 75% forgiveness to taxpayers in all cases. The fly in the ointment is that part of the law referred to as the "anti-windfall" tax.

Though propagandized as having been passed for the purpose of preventing too large a forgiveness to large individual taxpayers, this "anti-windfall" tax is the opening wedge in the establishment of an excess profits tax on individual incomes. These "anti-windfall" provisions bear a close resemblance to the excess profits tax designed to tax away corporate war profits.

Congress has maintained its unbroken record of writing tax bills incomprehensible to the layman, and the new law is even more complicated than usual. However, reduced to its very simplest terms the individual "excess-profits-anti-windfall" law provides that if an individual's surtax net income for 1942 or 1943, whichever is lower, exceeds by more than $20,000 his surtax net income for the highest of the years 1937-1940, he must add $20,000 to the surtax net income for whichever of those four years he chooses, and compute his tax on this theoretical amount on the basis of 1942 or 1943 rates, depending upon which of those two years showed the lower income. If the resultant figure is less than 75% of his tax for either 1942 or 1943, he must pay the difference by March 15, 1944.

Now, with the terms of the Act in mind, let us use a hypothetical case to see how much "forgiveness" a taxpayer in the higher in-

(Continued on page 117)

Justin Barbour With H. C. Wainwright Co.

BOSTON, MASS.—H. C. Wainwright & Co., 60 State Street, members of the New York and Boston Stock Exchanges and other leading Exchanges, announce that Justin F. Barbour, whose Dow Theory interpretations have appeared in the Chicago "Journal of Commerce" since 1937, is now associated with them in their Boston office. Mr. Barbour has been associated with James H. Oliphant & Co. in their Chicago office since 1929, and previously was in the advertising field for 17 years.

W. T. Maddox Jr. To Be W. E. Hutton Partner

William T. Maddox Jr. will shortly become a partner in W. E. Hutton & Co., 14 Wall Street, New York City, members of the New York Stock Exchange and other leading national exchanges. Mr. Maddox has been with the firm in the trading department for some years. Prior thereto he was with Clark, Dodge & Co. as manager of the trading department, and was with the First Boston Corporation.

Connecticut Industries Prospects Look Good

Connecticut industrial companies have repeatedly demonstrated their ability to participate fully in general industrial activity, whether generated by war requiremens or peacetime needs, according to a booklet which surveys nine Connecticut industrial companies, prepared by Chas. W. Scranton & Co., 209 Church St., New Haven, Conn., members of the New York Stock Exchange.

The booklet gives thumb-nail sketches of the nine companies showing their activities, resourcefulness and adaptability, post-war prospects and other facts of significance to investors today. Copies of this interesting booklet may be had from the firm upon request.

Portland-Ogdensburg Ry. Looks Attractive

The current situation in Portland & Ogdensburg Railway first 4½s of Nov. 1, 1953 offer attractive possibilities according to a memorandum being distributed by Adams & Peck, 63 Wall Street, New York City. Copies of this interesting circular may be had from Adams & Peck upon request.

Hardy & Co. Admits MacCowatt As Partner

Hardy & Co., 30 Broad Street, New York City, members of the New York Stock and Curb Exchanges, will admit H. Haskell MacCowatt to partnership in their firm as of today. Mr. MacCowatt was formerly a partner in Garvin, Bantel & Co.

The COMMERCIAL and FINANCIAL CHRONICLE
Reg. U. S. Patent Office
William B. Dana Company
Publishers
25 Spruce Street, New York
BEekman 3-3341
Herbert D. Seibert,
Editor and Publisher
William Dana Seibert, *President*
William D. Riggs, *Business Manager*
Thursday, July 8, 1943
Published twice a week [every Thursday (general news and advertising issue) with a statistical issue on Monday]
Other Offices: Chicago—In charge of Fred H. Gray, Western Representative, Field Building (Telephone State 0613). London—Edwards & Smith, 1 Drapers' Gardens, London, E.C.

Reentered as second-class matter February 25, 1942, at the post office at New York, N. Y., under the Act of March 3, 1879.
Subscriptions in United States and Posessions, $26.00 per year; in Dominion of Canada, $27.50 per year; South and Central America, Spain, Mexico and Cuba, $29.50 per year; Great Britain, Continental Europe (except Spain), Asia, Australia and Africa, $31.00 per year.
NOTE—On account of the fluctuations in the rate of exchange, remittances for foreign subscriptions and advertisements must be made in New York funds.

Folger Nominated As President Of IBA

John Clifford Folger, partner in Folger, Nolan & Co., Washington, D. C., has been selected by the Nominating Committee to head the slate of officers of the Investment Bankers Association. Jay N. Whipple, Bacon, Whipple & Co., Chicago, has declined to serve again as president of the Association.


J. C. Folger

The nomination of Mr. Folger is now being considered by the Board of Governors of the IBA and on their approval will be submitted to the members for vote at the next meeting of the Association in November. Nomination and approval by the Governors are tantamount to election.

Mr. Folger is now a Vice-President of the IBA.

OUR REPORTER'S REPORT

Firms which have been active in the field of "special offerings" will operate henceforth under definite regulations, an important development considering that such business has been assuming rather substantial proportions over a period of time.

Such offerings have been subject to the special offering rule set up by the New York Stock Exchange early in February last year but have been on a temporary basis and subject to renewal by the Securities and Exchange Commission every six months.

Now the Federal agency has extended such rules indefinitely subject to certain amendments so that the banking house or broker initiating such transactions will no longer find it necessary to query authorities for any possible sudden revisions in the regulations.

The Exchange's set up has been extended with certain modifications filed by it with the Commission at the start of the month.

Under the new amendments, as approved, sponsors are permitted to over-allot to the extent of 10% for the purpose of facilitating stabilization.

Another amendment exempts short sales effected in the course of such an offering from pricing restrictions now provided in rules covering ordinary short sales.

With the flow of new bond issues rather light so far this year, investment bankers have been finding these so-called special offerings and secondary operations helpful as "fill-ins."

I.C.C. to Hear Bankers

The Interstate Commerce Commission will hear one of the Middle Western banking firms which protested the recent sale, through direct negotiation, of $28,481,000 of first mortgage 3¾% bonds of the Pennsylvania, Ohio & Detroit Railroad.

Hearing on the issuer's application for authority to sell the bonds, marketed about a week ago

(Continued on page 122)

Says U. S. Can Carry $200 Billion Debt, Preserve Credit And Avoid Inflation

Prof. Weisman Declares Such Debt Must Be Widely Held And Securities Not Be Converted Into Cash

The conclusion that "we can carry a debt of $200,000,000,000 if need be, provided it is widely held" was voiced the latter part of last month by Russell Weisman, Professor of Business Economics at Western Reserve University, who went on to state further: "provided we think of it and our children think of it not as immediate income to be converted into cash, . . . but as a permanent part of our estates as a new generation of capitalists, to be saved, and the income only to be drawn upon."


Russell Weisman

In his address, delivered at St. Paul, under the title "Can We Avoid Inflation?" Mr. Weisman indicated himself as concerned "about the phase of inflation about which our political leaders have to this time shown very little inclination to consider or to discuss, to say nothing of taking the steps necessary to prevent." He stated that he had in mind "the explosive or destructive type of inflation which is a product of great imprudence in public finance, extending over a very long period of time, and involving very heavy public expenditures that are financed not by taxation but by great expansion of the public debt." Mr. Weisman reviewed the history of the country's public indebtedness over the last 25 years, and noted that "instead of conserving our credit in the 20-odd years between World War I and World War II we drew heavily upon that credit resource "to finance emergencies of a minor character" by comparison with the emergency that confronted us when we were attacked at Pearl Harbor in December, 1941."

The speaker observed that "we are merged in expenditures that

(Continued on page 110)

Aircraft Manufacturers Are Not Overcapitalized In Relation To Peace-Time Sales

The production of aircraft by the leading aircraft manufacturers in the United States has expanded approximately 2,356% since 1938. This tremendous expansion, however, has not been made at the cost of an inflated capital structure for the industry. On the contrary, the increase in capital funds has been most moderate and thus there is no indication that the industry is overcapitalized in relation to peace-time markets.

The situation is made clear in the following tabulation which shows aggregate figures for nine of the largest producers of airplanes, engines and propellers in the country, in whose stocks Aviation Group Shares provides a current ownership interest.

	1938	1942	Increase	
Annual Sales	$150,159,000.00	$3,688,306,000.00	$3,538,147,000.00	+2,356.3%
Paid-in Capital & Surpl.	90,846,000.00	137,917,000.00	47,069,000.00	+ 51.8
Earned Surplus	17,215,000.00	172,368,000.00	155,153,000.00	+ 901.8
Total Capital Funds	108,061,000.00	310,283,000.00	202,222,000.00	+ 187.1

Sales Up. 2,356%; Paid-in Capital Up Only 51.8%

It will be noted that 1942 sales are approximately 24½ times 1938 sales, but that 1942 capital funds are less than 3 times the 1938 figure. Furthermore, over ¾ of the increase in capital funds represents undistributed earnings retained in the business and thus less than ¼ represents "new money" from financing.

In 1938 sales represented $1.39 per $1.00 of capital funds; in 1942 sales represented $11.90 per $1.00 of capital funds.

In 1938 net earnings represented 16.2% on capital funds; in 1942 net earnings represented 40.3% on capital funds.

In 1938 net earnings represented a net profit on sales of 11.6%; in 1942 net earnings represented a net profit on sales of only 3.4%.

Dividends in 1938 represented 48.7% of net earnings; in 1942 dividends were 290% greater than in

(Continued on page 104)

Broker-Dealer Personnel Items

If you contemplate making additions to your personnel please send in particulars to the Editor of The Financial Chronicle for publication in this column.

(Special to The Financial Chronicle)
BEVERLY HILLS, CALIF.—**Charles R. Livingstone** has become associated with the **Bankamerica Company**, 9470 Santa Monica Blvd. Mr. Livingstone was previously with Akin-Lambert Co., Crowell, Weedon & Co., and Sargent, Taylor & Co.

(Special to The Financial Chronicle)
BOSTON, MASS.—**Andrew G. Lindbohm** has been added to the staff of **Weston W. Adams & Co.**, 20 Kilby Street.

(Special to The Financial Chronicle)
BOSTON, MASS.—**Roy M. Miller** is now with **Bond & Goodwin, Inc.**, 30 Federal street. In the past he was with Paine, Webber & Co.

(Special to The Financial Chronicle)
CLEVELAND, OHIO—**Paul E. O'Reilly** has become associated with **Merrill Lynch, Pierce, Fenner & Beane**, 216 Superior Avenue, N. E. Mr. O'Reilly was with J. S. Bache & Co. in the past.

(Special to The Financial Chronicle)
CLEVELAND, OHIO—**George R. Tenbusch** has become affiliated with **Saunders, Stiver & Co.**, Terminal Tower Building. Mr. Tenbusch was formerly with Ledogar-Horner Company, Johnson, Kase & Co., and Ernst & Co.

(Special to The Financial Chronicle)
KANSAS CITY, MO.—**James M. Carrigan** has joined the staff of **Goffe & Carkener, Inc.**, Board of Trade Building. In the past Mr. Carrigan was with B. C. Christopher & Co., in charge of their Hutchinson, Kans., office.

(Special to The Financial Chronicle)
LOS ANGELES, CALIF.—**Thomas E. Adams** is now connected with **Akin-Lambert Co.**, 639 South Spring Street.

(Special to The Financial Chronicle)
LOS ANGELES, CALIF.—**Oscar C. Nelson** is now with **Bingham, Walter & Hurry**, 621 South Spring Street.

(Special to The Financial Chronicle)
LOS ANGELES, CALIF.—**Arnold Staunton** and **Nicholas J. Winckler** have been added to the staff of **G. Brashears & Company**, 510 South Spring Street.

(Special to The Financial Chronicle)
LOS ANGELES, CALIF.—**Alexander Leitch** is now affiliated with **Nelson Douglass & Co.**, 510 South Spring Street. Mr. Leitch was previously with Fewel, Marache & Co., and M. H. Lewis & Co.

(Special to The Financial Chronicle)
OAKLAND, CALIF.—**Ray Dore**, formerly with H. R. Baker & Co., Franklin Wulff & Co., and the Bankamerica Company, is now associated with **Davies & Co.**, 1404 Franklin Street.

(Special to The Financial Chronicle)
OAKLAND, CALIF.—**Albert E. Culbard** has become connected with **Geo. H. Grant & Co.**, Central Bank Building. In the past Mr. Culbard was Los Angeles manager for the American Fidelity Corp.

Change Firm Name To Boland, Saffin & Co.

Henry B. Boland, Richard F. Saffin and William H. Boland announce that the firm name of H. B. Boland & Co. is being changed to Boland, Saffin & Co.

The firm, which has been active in the securities business since 1920, maintains offices at 52 William Street, New York City.

Jordan & Company Is New Firm In Seattle

(Special to The Financial Chronicle)
SEATTLE, WASH.—Jordan and Company has been formed with offices in the Insurance Building, to engage in a general securities business. Head of the new firm is Andrew A. Jordan, formerly President of Lobe & Jordan, Inc.

Quotation Sheets As Evidence Of Market Price

By ABRAHAM M. METZ and EDWARD A. KOLE

In disciplining security dealers, the attitude of the Securities and Exchange Commission is twofold:

(a) It implies a fiduciary relationship between the dealer and the purchaser, even in sales made as principal, and

(b) As a result further implies fraud from the size of the profit taken.

According to "The Commission," the test of fraud depends upon whether the selling price bears a reasonable relationship to the "current market price."


Abraham M. Metz

Establishing the market price of **listed** securities presents no problem. A daily newspaper may properly be introduced in evidence for that purpose. This method of proof was approved by Mr. Justice Hughes in the case of Virginia vs. West Virginia, reported in 238 U. S.

The significance of newspapers as evidence of market price of **listed securities** lies in their reporting actual sales. Sales constitute the true test, not merely bid-and-ask quotations.


Edward A. Kole

Establishing the market value of **over-the-counter securities** is not nearly so simple. In some proceedings before "The Commission" to revoke the registration of brokers and dealers, quotation sheets have been used to establish market price. In our opinion, because these sheets do not record any sales, they should not have

(Continued on page 121)

Sees Mathematics Of Debt Answer To Most Of The Economic Ills Which Confront Nation

I was a subscriber for twenty years until last year when I had to stop on account of my eyes. In that period I believe your editorials gave me a splendid financial training. In that twenty years, however, I do not remember one editorial that ever covered the mathematics of debt:

Dividing 72 by any interest rate gives the approximate period in which any principal will double at compound interest annually. Any principal at 10% compounded annually will double in 7.2 years. Taking a $100.00 principal, at the end of 7.2 years we have $200.00; at the end of 14.4 years $400.00; at the end of 21.6 years $800.00 and so on forever. Or a geometrical progression, and a very easy method for the calculation of interest for long periods of time and large amounts.

One U. S. cent put at 3% compounded annually gives us from the Birth of Christ—

$96,710,865,170,333,976,494.08

Break that number down and what do we get: It is more wealth than there is in the world, and if that is so we have hit an impossibility. If it is an impossibility why are we trying to collect interest forever, when it cannot ever be done. In view of the billions of capital at interest let's change our progression by shortening the period of time and increasing our principal from 1 cent to billions of dollars and we'll find that in a staggering short time all the wealth of the world is in one pile.

One fact stands out regardless of legality—money cannot draw interest forever. That's a hard things to face but it should be faced if we really wish to stop this human butchery of our sons every so often.

Connect up with the geometrical progression the real reason behind the Death Sentence clause as to holding companies—the stopping of banks paying interest on limited checking accounts—the squeeze on the railroads in increasing wages but holding rates down — the squeeze on practically all business today in ceiling prices as to selling but competitive buying. Our income taxes. We're having an American edition of the Russian Revolution—the wiping out of the rich and middle classes—and are we being wiped out—and how.

New York City never paying off its debt. Always hunting for new sources of taxation. Seeing if they may find a new quiet way to pluck the goose.

It is interesting to apply the progression to our War debt even if the rate is low or to our Social Security program. How do we convert the Social Security taxes of today into eggs forty years from today. It is really quite a problem involving many headaches and maybe no eggs.

I'm surprised that the leading financial publication in maybe the world doesn't say much ever about applied mathematics on debt.

Wish I could continue to take the Chronicle. I miss it.

W. C. Everett.

Winslow, Ariz., June 30, 1943.

James Kelly Now With Kidder Peabody & Co.

James F. Kelly has joined the trading department of Kidder, Peabody & Co., 17 Wall Street, New York City, members of the New York Stock Exchange and other leading Exchanges. Mr. Kelly was formerly in the trading department of Joseph McManus & Co., specializing in unlisted stocks. Prior thereto he was with Brown Harriman & Co.

Seaboard Reorganization Plan Summarized

Van Tuyl & Abbe, 72 Wall St., New York City, have prepared a condensation of the Draft Report by Tazewell Taylor, special master, of the plan of reorganization of Seaboard Air Line Railway Co. Copies of this interesting summary may be had from Van Tuyl & Abbe upon request.

Jos. McManus Co. Admits

Matthew A. McManus was admitted to partnership in Joseph McManus & Co., 39 Broadway, New York City, members of the New York Curb Exchange and Chicago Stock Exchange, on July 1st.

Charles Capek To Be Lee Higginson V.-P.

Charles A. Capek, who has been engaged in war work in Washington for the past year, has been elected a Vice-President of the Lee Higginson Corp. He will assume his new duties in the firm's Chicago office, 231 South La Salle Street, about July 15, following his recent resignation from the Treasury war finance group. Mr. Capek went to Washington last year, at the invitation of the War Production Board, with which he served in an executive capacity for several months. Subsequently he joined the Treasury Department to assist in war financing, being associated with George Buffington, Assistant to the Secretary, who directed the operations of the National Victory Fund Committee, which later was merged into the Treasury War Finance Committee. Mr. Capek took an active part in the first and second war loan campaigns as a member of the national headquarters staff which directed those highly successful financing operations.

Now Dean W. Titus & Co.

ANN ARBOR, MICH.—Konold, Titus & Company, State Savings Bank Building, was as of July 1st succeeded by Dean W. Titus & Company, with Dean W. Titus as proprietor. A branch is also maintained in Detroit under the management of Lester C. Lanterman.

Chicago & North Western Railway Co.

On June 28th last, Chicago & North Western "celebrated" its eighth year in bankruptcy under Section 77 of the National Bankruptcy Act. On June 27, 1935, the Board of Directors found that, having taken advantage of the 60-day grace period, they were unable to pay $1,718,000 of interest due on the road's 4¾% convertible bonds. In its statement of obligations filed with petition in bankruptcy, the Directors pointed to a total of $29,465,000 in default, of which $18,280,000 represented principal and $11,185,000 interest obligations. At the end of 1935, the System held cash of only $3,300,000, and had current liabilities, even excluding the unpaid interest, many times in excess of current assets.

What a contrast today's picture affords! At March 31, 1943, the company's net current assets stood at $73,000,000; cash in all forms amounted to $76,600,000. Even with the present tremendously over-capitalized pyramid, earnings for the first three months of 1943 covered fixed charges 2.4 times before Federal taxes and 1.7 times after taxes. In view of the status of the Reorganization Plan, the mounting cash position and the constantly increasing earnings, it would appear worth-while to reappraise North Western's future possibilities.

There appears little likelihood that the Plan will be upset in any appreciable degree, despite efforts of the company to have certain aspects modified. Recently, the road's attorneys petitioned the ICC to grant further hearings in view of the fact that the original Plan did not foresee the large amount of cash which would accrue due to the unusual traffic of the past two years. However, the two large creditor groups representing the life insurance and savings bank holdings have requested the ICC to deny the road's petition to reopen hearings, in order that realization of the Plan may be expedited. The Supreme Court already has refused to review the case. All in all, it appears probable that the new securities will be issued before the end of the year.

It will be recalled that the Plan reduces the funded debt, excluding equipment obligations, from approximately $360,000,000 to $210,000,000. More than this, while all the old debt bears interest at a fixed rate, only $90,600,000 of the proposed funded debt of $210,000,000 is fixed interest. The capitalization, excluding equipment trusts, as proposed under the Reorganization Plan follows:

TABLE I

	(000s)
Sioux City divisional mtg. 4s	$4,000
Des Plaines divisional mtg. 4s	2,500
Notes due banks	3,296
Notes due Reconstruction Finance Corp. 4%	25,000
1st & Gen. 2½-4s, 1939	55,753
2nd Mtg. Inc. 4½s, 1999	105,059
5% pfd. stock ($100 par)	1,069,960 shs.
Common stock (no par)	1,077,999 shs.

Before examining the details of the funded debt as proposed, let's get back to the company's working capital position, which, after all, determines debt retirement possibilities. The latest balance sheet as of March 31, 1943, discloses, as we have seen, $73,000,000 of net current assets. At the rate net earnings are increasing,

(Continued on page 102)

Railroad Securities

The majority of Denver & Rio Grande Western securities have paid little attention to the filing, on June 14, of a third supplement reorganization report by the Interstate Commerce Commission. The junior bonds (the General 5s, 1955) have not declined nearly as sharply as their proposed treatment would justify, while the 5s, 1978 and the two series of Denver & Rio Grande Consolidated Mortgage bonds have not, in the opinion of most rail men, advanced to the extent justified by their treatment in the plan. Considering the background of the Denver reorganization this is surprising, as any major changes in the proposal from here on would appear unlikely.

The Commission had before it the Supreme Court decisions on the Western Pacific and St. Paul reorganizations so presumably considers that the terms of the new Denver plan are in line with the principles set up by that body. The courts have consistently refused to overrule the Commission on questions involving the matter of "informed judgment." Finally, the Commission, in issuing the plan, denied the request of the company for a further hearing to consider the vastly improved earning power of the properties. The Commission did review the 1942 earnings but decided that the abnormalities of the present situation did not justify any assurance that this earning power would be of long duration.

In other words, everything that is to be considered has presumably entered into the recent plan, and, barring some new legislation such as the Hobbs' proposal, it seems reasonable to expect that the final modified plan presented to the court will vary little, if any, from this one. It is also an important factor that this new plan appears to follow fairly closely the principles set down by Judge Symes in remanding the original Commission plan for the Denver back to the Commission more than two years ago.

On the basis of the proposed allocation of new Denver securities the Consilidated 4s and 4½s, 1936 and the Refunding & Improvement 5s, 1978 afford the most attractive speculative potentialities. Proposed treatment of these issues is as follows:

	*1st Mtge. 3s, 4s	Income 4½s	5% Preferred	Common
Denver & Rio Grande Cons. 4s, 1936	$318.92	$217.08	$321.60	4.82 shs.
Denver & Rio Grande Cons. 4½s, 1936	329.03	223.97	331.80	4.98 shs.
Denver & Rio Gr. Western Ref. & I. 5s, 1978	250.01	159.61	310.75	6.92 shs.

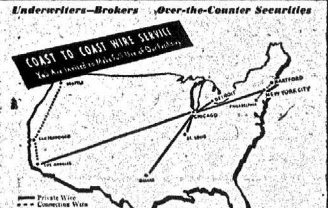
*Interest 3% fixed and prior contingent.

Even if the speculative and investment public is no more willing than the ICC to recognize the obvious basic improvement in the road's earnings status and prospects, arising through industrialization of the service area and consequent opening up of new traffic sources to say nothing of the increased efficiency through virtually rebuilding the main line during the trusteeship period, it would seem reasonable under present market conditions to expect the new 1st Mortgage bonds to sell around 80, the new Incomes around 45, the new preferred around 32 and the new common around 18. On such prices for the new securities the old Consolidated 4s would have an indicated value of 54¼. the Consolidated 4½s an indicated value of 56, and the Refunding & Improvement 5s a value of 49½.

Such potential values are 40% to 50% above recent market prices for the old bonds. Moreover, the new securities would have considerable additional potentialities above the prices estimated, as they became seasoned and there was more lasting evidence of the fundamental improvement in the road's affairs.

It is also being pointed out that these potentialities do not give any recognition to the possibility that there may well be substantial interest payments on the old bonds later this year. As is common throughout the industry, cash has been mounting rapidly and it is expected that at least a portion of the excess funds may be distributed to the bond holders. The April 30 balance sheet showed cash and special deposits of $11,431,866, up $6,557,156 from a year earlier. There were also temporary cash investments of $4,200,000 (none a year earlier) which practically covered the U. S. tax liability. Net working capital had increased to $10,054,096 from $1,842,373 on April 30, 1942.

The wide earnings gains have been continued into the lastest periods for which figures are available, with net income for the month of May alone, after taxes and charges on the old debt, at $1,096,641, more than double that of May 1942. For the five months through May net income increased roughly $3,100,000 to $4,680,634. During the reorganization hearings an estimate was made that cash as of the end of the year might reach $15,600,000 after equipment purchases and all expenses other than interest. Actually, the figure will probably top that estimate. It is difficult to see how refusal to pay some interest could be justified.



Chicago Brevities

The question of consummating a plan for the reorganization of the **Chicago, North Shore and Milwaukee Railroad** and removing it from the protection of the federal court, where it has been since 1932, is a topic of current discussion in local financial quarters. Moves in the direction of reorganizing the road presently are under way, but representatives of security holders are hesitant about projecting any estimate of the amount of time that will be required to terminate the proceeding.

In the latter connection, security holder representatives are mindful of the customary involved court procedure that characterizes reorganization cases. Other observers, however, feel that the reorganization can be accomplished within a relatively short time, perhaps within a year. Moreover, it is felt that speedy consummation of the case is desirable at this time, especially in view of the fact that full interest requirements on outstanding bonds of the road are being earned with a wide margin to spare. All interested parties are said to be in complete agreement that the reorganization should be accomplished quickly.

Proceedings involving the road received an impetus earlier this year, as a result of a decision by the Supreme Court of the United States. The case had been delayed for some time because of uncertainty as to the proper statute under which to proceed. The high court sustained a ruling by Federal Judge Michael L. Igoe of the Federal District Court in Chicago, that the reorganization should be effected under terms of Chapter 10 of the Chandler Act. On April 1, the 11-year-old equity receivership of the road was terminated, and the road was placed in bankruptcy, with Edward J. Quinn and John G. Gallagher named as trustees.

Equipment Claims

Present moves in the case center on the determination of how holders of the road's outstanding 1,600,000 of equipment trust certificates will fare. The majority of these certificates are in default as to the principal. Representatives of the certificate holders currently are negotiating with trustees of the road and owners of first mortgage bonds, looking toward a complete settlement of their claims. It is understood that there has been an interchange of proposals on the matter, but no common ground for a settlement has been reached thus far.

Some financial men express the view that the settlement of these claims should present no real problem and feel that this phase of the case should be cleared up within a reasonably short period. Present intentions are to clear up the matter of the equipment trust certificates before a plan of reorganization is actually drafted and submitted to the court. Just when a plan actually will be offered to the court still is indefinite. Some quarters say that not much progress will be made in the case until after Sept. 1.

Discussing possible terms of a reorganization plan, financial men are anticipating that the capitalization of the new company will consist of a single issue of first mortgage income bonds and an issue of common stock. The ratio of income bonds to total capitalization, it is said, will be as large as the Securities and Exchange Commission will permit.

Revenue Trend Cited

The road, an electric line, is not without its romantic aspects. It serves the densely populated region between Chicago and Milwaukee, including the industrial cities of Kenosha and Racine, Wis., and the Great Lakes Naval Training Stations, the Glen View Naval Aviation Stations, and Fort Sheridan, Ill., as well as numerous and growing suburbs immediately north of Chicago.

At present, the line is enjoying greatly expanded traffic that carriers generally have realized as a result of the war. Gross operating revenues, exclusive of auxiliary and non-operating revenues, reached a total of $4,473,766 in 1941, which topped that of any previous year since the road has been in reorganization. Operating revenues for 1942 rose more than 50% above the 1941 aggregate to $6,830,786. In the first three months of 1943, gross totaled $1,983,938, as compared with $1,401,811 in the corresponding 1942 period.

MUNICIPAL BONDS

The steady rise of municipal bond prices to their all-time highs, based on an accepted index, continues to be a bright spot in the security markets. The general average of prices reached its peak following a virtually uninterrupted climb, unarrested as yet, over a period of nearly three months.

Evidence that the market as a whole has reached its peak was found in the Bond Buyer's index as of July 1. This placed the average yield of 20 bonds at 1.86%, which compared with its previous peak of 1.90%, set on Nov. 1, 1941, or shortly before the attack on Pearl Harbor. The index, which moves in inverse ratio to price changes, stood at 1.93% on June 1, indicating that quotations on the average rose 7 basis points last month. On Jan. 1 the index was at 2.17%.

While a broad upward movement has been in evidence for nearly the last three months, the climb of the market to its all-time high actually began with the advent of 1943. Prices moved steadily upward until shortly before the Second War Loan drive was launched in April. A pause occurred in the movement, because it was figured that the war financing might make for a dull market and easier prices. No recession occurred, and, after a momentary pause, the upward movement was resumed, and it has continued ever since.

Trading Fairly Active

Trading activity continues to run at a fairly active pace, not-

(Continued on page 103)

Chicago & North Western Railway Co.

(Continued from page 101)

it is estimated that this figure will be at or near $85,000,000 by the end of 1943. It is difficult to appraise the amount considered necessary for operations and other contingencies, but it appears reasonable to assume that between $45,000,000 and $50,000,000 could well be applied to debt retirement as soon as the Plan become effective. The very fact that the present management desires a modification of the Plan in order to pay off the RFC debt, and thus make certain other adjustments, would appear to bear out the assumption that a good percentage of cash could go for fixed debt reduction.

Even assuming that only approximately $35,000,000 is available for debt retirement, a glance at the tabulation of debt in the proposed capitalization (Table I) will show that this amount would pay off the RFC loan, both the divisional liens and the bank loans, leaving the 1st & General 2½-4s in top position, aside from the equipments. This would result in an annual saving of interest in the amount of $1,392,000, and since the proposed capitalization calls for fixed interest annually of about $4,000,000, this application of $35,000,000 to debt retirement would reduce fixed interest to about $2,600,000 per year. This would compare with over $16,000,000 before effectuation of the Plan!

Table II shows gross revenues and income available for fixed charges during the ten-year period, 1933-1942. (During the reorganization years, particularly from 1935 through 1939, extraordinary charges for maintenance of way and structure and for maintenance of equipment were made, averaging 38%—far above normal. In order to bring the figures in line with realistic conditions, a normal figure of 32% of gross revenues has been applied to earnings for those five years.) In order to give some indication of the extent to which the $2,600,000 of estimated fixed charges would have been earned, if the debt retirement is effected, this figure is applied against these past earnings:

TABLE II
($ Million)

	Gross Revenues	Available For Interest	Assumed Fixed Charges	Times Charges Earned	Balance
1942	$138.4	$26.4	$2.6	10.14	$23.8
1941	109.9	18.3	2.6	7.05	15.7
1940	92.8	11.5	2.6	4.42	8.9
1939	87.2	10.9	2.6	4.19	8.3
1938	81.1	5.1	2.6	1.96	2.5
1937	89.8	10.9	2.6	4.19	8.3
1936	92.0	12.9	2.6	4.97	10.3
1935	77.3	10.5	2.6	4.04	7.9
1934	75.9	8.5	2.6	3.27	5.9
1933	73.4	9.5	2.6	3.65	6.9

There appears little question from the figures in Table II that the 1st & General 2½s-4s offer the investor good earnings coverage, even if nothing is done except to remove prior debt as outlined in a preceding paragraph. These bonds, secured subject to the $6,500,000 divisional liens on the entire property, are outstanding in the amount of $55,763,000. The indenture provides an additions and betterments fund, which is the lesser amount of 2½% of gross, or $2,500,000; this will tend to preclude the tendency of capitalizing certain expenditures which often points toward increasing overall debt.

The Plan provides for total new fixed and contingent charges of roundly $12,400,000, including the additions and betterments fund, compared with old fixed charges of $16,400,000. Assuming, as we have done, that fixed interest through debt retirement can be reduced to $2,600,000 from $4,000,000 called for in the Plan, total fixed and contingent charges would be reduced to $12,000,000. The Second Mortgage Income 4½s will be outstanding in the amount of $105,059,000, and annual interest requirements to service this issue fully will be $4,728,000. The pro-forma earnings statement in Table II shows that this interest would have been fully earned in all but one year of the past ten.

Interest on the 2nd Mortgage bonds is payable at the rate of 4½% annually and is cumulative up to 13½%. A sinking fund is provided amounting to ½ of 1% and was fully earned in 1941 and 1942, and will also be earned in 1943. The new income bonds are to be convertible into common stock at the rate of 15 shares per $1,000 face amount of income bonds.

The ICC has estimated that normal future earnings available for interest will be in the neighborhood of $14,600,000. To earn all contingent interest fully, assuming the interest saving of $1,400,000 previously calculated due to debt retirement, will require $9,300,000; this would leave a balance of approximately $5,000,000 available to the preferred. However, it is estimated that income available for interest in 1943 will reach $30,000,000, which after deducting $9,300,000 for all interest, would leave over $20,000,000 for the preferred and common—equivalent to more than $18.70 per share of $5.00 preferred and $10.80 per share of common.

All "when issued" securities of the North Western are considered to be attractively priced at present, but most particularly the 1st & General Mortgage bonds at their present price. They are outstanding at a low rate per mile, will occupy a senior lien position, and under almost all possible circumstances will be well protected by earnings. As a speculation, the 2nd Mortgage bonds at current quotations have interesting price appreciation possibilities and afford a good yield on well-covered interest. The preferred and common are, of course, highly speculative especially for any long-term holding.

H. H. Bowker Associated With Harris, Hall & Co.

CHICAGO, ILL. — Herbert H. Bowker has joined Harris, Hall & Co., 111 West Monroe Street. Mr. Bowker recently was connected with the Victory Fund committee engaged in the sale of war bonds. In the past he was associated with Stone & Webster and Blodget, Inc. for more than 12 years.

Chicago Recommendations

Adams & Co., 231 So. La Salle Street, who have been active in the lumber situation, have prepared a late analysis on **Coos Bay Lumber Co.** Common Stock. Sent on request.

* * *

Caswell & Co., 120 So. La Salle Street, will furnish late data on **Gisholt Machine Co.** Common, **Reliance Steel Co.** Common and **General Box Corp.** Common.

* * *

Enyart, Van Camp & Co., 100 W. Monroe Street, have latest available data and prices on **Chicago and Suburban Bank Stocks**, which will be sent on request.

* * *

Kneeland & Co., Board of Trade Bldg., will furnish late data on **Kellett Aircraft Co., Consolidated Dearborn Corp., Kansas City Public Service Co.** and **Interstate Co.**

* * *

Leason & Co., Inc., 39 So. La Salle Street, has prepared a study showing the intrinsic and potential value of the First Mortgage and First & Refunding Bonds of **The Chicago Rapid Transit Co.** in relation to their present market value and a discussion of three possible solutions of the financial affairs of the company. This study covers unification, municipal ownership and company reorganization, one of which appears to be a possible solution. This illustrated brochure may be obtained on request from Leason & Co., with or without imprint.

* * *

E. H. Rollins & Sons, 135 South La Salle Street, have prepared an analytical report on **Telephone Bond & Share Co.** 5% 30-Year Debentures, Series A. During 1942 and early in 1943 several of the company's subsidiaries effected advantageous refundings. In two instances debt was issued, the proceeds of which were used to retire preferred stock issues, a tax-saving result. These refundings should not only result in increased net income for the subsidiaries, but may also permit of increased dividends on the respective common stocks held by Telephone Bond & Share Co. Copies of this analysis on request.

* * *

Straus Securities Co., 135 So. La Salle Street, have late analyses on **American Barge Line Co.** Common, **Hearst Consolidated Publications, Inc.**, Class A Stock, and **Poor & Co.** Class A Stock. Their Statistical Department will furnish these on request.

* * *

Thomson & McKinnon have just issued a special release on **General American Transportation Co.** In view of the current interest in tank and refrigerator car service this is particularly timely. Their current weekly reviews the **group action of stocks**, and also has an article on **Vitamins** and the **Drug Companies**, as does their release **"Highlights."** Their **weekly bond review**, as is customary, is devoted principally to the **railroad issues**, due to the public interest in rails.

Copies of any of these may be obtained without cost by contacting **Thomson & McKinnon's Statistical Library**, 231 So. La Salle Street, Chicago.

* * *

Zippin & Co., 208 So. La Salle Street, specialists in Foreign Securities, offer their assistance in making out **Foreign Property Report—Form T. F. R. 500**—which is due not later than Aug. 31, 1943.

Chicago Brevities

(Continued from page 102)

withstanding the fact that dealers continue to talk about the relative scarcity of bonds in the market. The matter of buying bonds to replace depleted inventories continues to be a major problem of dealers. Some traders say that dealers are willing to pay almost any price to obtain inventory. New financing activity by States and Municipalities continues to run at a low level, but liquidation by institutional investors has taken up some of the slack.

Last week, for example, only a single new issue of any size entered the market. This consisted of $3,000,000 of City of Tacoma light and power revenue bonds. As compared with this new financing two State accounts sold at competitive bidding a total of more than $8,000,000 of previously issued securities from their portfolios. In addition to the latter bonds sold competitively, a certain amount of other bonds were sold privately by investment accounts to dealers.

TRACTION CASE

Chicago's traction case, which has commanded considerable attention in recent months, apparently has been cast into the background again without any progress being made. The case died down when the Illinois Commerce Commission denied petitions for a rehearing of its decision of May 3, which rejected a plan to unify the properties of the Chicago Surface (street car) Lines and the Chicago Rapid Transit (elevated lines) Company.

The entire case has revolved around efforts to provide a single local transportation system for the city through unification of the elevated and street car lines, both of which are in reorganization. The merger plan has been approved by the Federal Court, the City of Chicago, and a majority of security holders of the surface lines and the elevated railway. The refusal of the commerce commission to approve the plan has blocked the unification. The commission repeatedly has held that the unification plan is financially unsound, and that earnings of the consolidated company would not insure modernization of the properties.

R. F. C. Loan Offer

Armed with an offer by Jesse Jones, Chairman of the Reconstruction Finance Corporation, to lend nearly $40,000,000 to the Chicago Transit Company, the new company that would be set up under the proposed merger, Mayor Edward J. Kelly of Chicago had petitioned the Commission for a rehearing of the May 3 decision. The Chicago Transit Company also filed a plea for rehearing. In denying these petitions, the Commission declared that not one cent of the proposed Federal loan would be available for modernization, and that all would be paid over to security holders.

The Office of Price Administration also lost a plea in the case. It had asked the Commission to set aside an order making the 8-cent street car fare permanent and urged reversion to a 7-cent fare that existed until April 20, 1942. The Commission, in denying this petition, said that additional evidence was not sufficient to warrant reconsideration of this phase of the case.

Keating Now A Major

Captain James A. Keating, of the Army Air Forces, formerly associated with Mason, Moran & Co., and over 20 years on La Salle Street, has been promoted to the rank of Major. He was previously commissioned a Captain last September.

He is assigned to the 1st Troop Carrier Command at Stout Field, Indianapolis. Major Keating had a distinguished record as a flier in the last war, having received the American Distinguished Service Cross, the British Distinguished Flying Cross and French Croix de Guerre. He was officially credited with bringing down six German planes.

Cruttenden Partners Named Directors Of Companies

CHICAGO, ILL.—Fred R. Tuerk and W. W. Cruttenden, partners of Cruttenden & Co., 209 South La Salle Street, members of the New York and Chicago Stock Exchanges have been elected directors of Universal Engineering Corporation, Cedar Rapids, Iowa. Mr. Cruttenden has also been elected a director of the Davidson Manufacturing Company, Chicago.

Lee With Goldman Sachs

CHICAGO, ILL. — Arthur D. Lee, formerly with the Oak Park Trust and Savings Bank, has become associated with the Chicago office of the investment firm of Goldman, Sachs & Co., 208 South La Salle Street.

Smith Joins Faroll In Trading Dept.

CHICAGO, ILL.—Faroll Brothers, 208 South La Salle Street, members of the New York Stock Exchange and other leading exchanges, announce that George W. Smith is now associated with them in their Trading Department. Mr. Smith has been on La Salle Street since 1925, having been with Sincere & Co., and more recently with Ryan-Nichols & Co.

Arthur Korte Partner In C. H. Reiter & Co.

(Special to The Financial Chronicle)

CINCINNATI, OHIO — Arthur W. Korte has been admitted to partnership in C. H. Reiter & Co., Union Trust Building, members of the Cincinnati Stock Exchange. Mr. Korte, a member of the Cleveland Exchange, has been with C. H. Reiter & Co. for a number of years. Prior thereto he was an officer of the Irwin-Bellmann Company.

In Armed Forces

David A. Fitzgerald is now serving in the U. S. Armed Forces. At present he is stationed at 480th T. H. M. P. E. G. Co., Fort Custer, Michigan. Mr. Fitzgerald is a member of the Boston Securities Traders Association.

Taylor, Deale & Co. Formed In New York

John Blyth Taylor and Blair Bowditch Deale have formed Taylor, Deale & Company with offices at 64 Wall Street, New York City, to act as over-the-counter dealers and brokers specializing in Canadian government, provincial, municipal and corporate bonds and other foreign securities.

Partners of the firm were formerly associated with Harriman Ripley & Co. Prior thereto Mr. Taylor was with Hanson Bros. of Montreal and the Sun Life Assurance Co.

E. C. Johnson Pres. Of Fidelity Fund

R. N. Taliaferro With Loomis, Sayles & Co.

Fidelity Fund, Incorporated, announces the resignation of Richard N. Taliaferro as president on July 7th. Edward C. Johnson, 2nd, succeeds Mr. Taliaferro as president of Fidelity Fund; he will also continue as treasurer of Incorporated Investors.

Mr. Taliaferro will become associated with Loomis, Sayles & Company, Incorporated in their Washington, D. C. office.

Wisconsin Corporation Notes

Koehring Company, Milwaukee, reports net profits equivalent to $3.87 a share on the Common stock for the six-months period ended May 31. Net worth increased to $4,108,107—equal to $70.80 a share. Dividends in the first half of the 1943 fiscal year amounted to $1.00 a share.

Mosinee Paper Mills paid a dividend of 20 cents a share on June 30, the same amount as that disbursed a year ago.

Nekoosa-Edwards Paper Company paid a regular quarterly dividend of 50 cents a share on June 30.

Profits of the **Mid-States Shoe Co.**, Milwaukee, for the first seven months of their fiscal year are understood to be approximately $1.00 a share.

The company had current assets of $2,532,754 at May 31, against current liabilities of $864,516. Current liabilities included a $100,000 note payable to banks on December 31 next, representing the last instalment of $100,000 on the $500,000 term loan arranged several years ago. There were no other bank loans.

Govt. Or Municipal Ownership Of Monopolistic Or Strategic Industries Proposed By UAW

R. J. Thomas, President of the Congress of Industrial Organizations, United Automobile Workers, announced on July 3, a post-war program providing for government or municipal ownership of monopolistic industries and of industries strategically necessary to the national safety, said an Associated Press dispatch from Detroit on July 3, to the New York "Herald Tribune" from which we also take the following:

"Government regulation of other industries also is proposed 'to prevent the abuses of monopoly and to assure production in the public interest.'

"Mr. Thomas said the program was adopted by the U.A.W.-C.I.O. international executive board which met recently at Toronto.

"Of private enterprise, the program says: 'Our industries can no longer be operated to serve private interests where those interests conflict with the public need. Initiative can find its most useful outlet, greatest recognition and highest reward when exerted in the public service.'

"Asserting that industry should be encouraged to plan for full production, the program adds: 'Such plans, however, will be effective to the extent that management engages in industry-wide collective bargaining with labor unions to stabilize wages, hours and working conditions.'

"High lights of the program are:

"Full representation for labor in negotiating the peace and in reconstruction of post-war industry.

"An immediate international conference of labor of the United Nations to discuss effective participation in the war effort, formulation of the peace and planning for post-war world.

"Destruction of the war-production industries of the Axis nations, but no use of reparations to punish the peoples of those nations.

"Seeking a guaranty of full employment for all workers and service men in the post-war period, the U.A.W. proposes a 30-hour work week; protection of low-standard areas against exploitation; a gigantic national construction program to include housing, schools, highway, hospital, recreational, public-power and conservation developments.

"The union also proposes a separation allowance, or bonus, up to $2,500 for each honorably discharged member of the armed forces, an initial payment to be made upon discharge and the balance in installments; enforcement of seniority provisions in union contracts, and free education or training for discharged men who desire it.

"The board said its post-war plan was advanced now in the belief 'that its popularization can serve as a powerful stimulus to the immediate job of winning the war.'

"To finance the post-war undertakings, the board proposed a tax program based on the principle of ability to pay; exemptions to every family in an amount which will permit maintenance of a minimum decent standard of living; sharp upgrading of inheritance taxes, and reasonable ceilings on profits and incomes."

Post-War Inflation Seen Inevitable

While the degree of post-war inflation will depend considerably on the length of the war, a further decline in the purchasing power of the dollar seems inevitable, according to United Business Service.

The Service points out that the implications for the post-war period are more significant than the present familiar spiral of rising wages and prices. Interest on the national debt alone after the war is expected to equal the entire cost of pre-war Government. Maintenance of military establishments, veterans' costs, and expanded "social security" will be added to "normal" Government expenditures. In short, it looks like 25 to 30 billion dollar budgets in the post-war years. It would thus appear, in the opinion of the United Business Service, that this burden will be too heavy to bear unless there is a permanently higher level of commodity prices.

What, then, is the long-term outlook for stock prices? Will a permanently higher commodity price level mean likewise a permanently higher level for stocks? The Service predicts that this will be the case—so long as no abnormal factors of a deflationary nature enter the picture.

If earnings, for example, were taxed 100%, stocks would be of dubious value as "inflation hedges". It may be remarked here, however, that Washington trends indicate that corporations will fare better than individuals from a tax standpoint in the post-war years. Moreover, the Service believes that inflation will result in a tendency to evaluate stocks at a higher price in relation to their earnings and dividends at any given time.

Inflation implies a desire to exchange money for some form of investment. Stocks are not the only desirable holding under inflationary conditions, but they are certainly the most popular because they are easier to buy and sell than most other "inflation-hedge" media.

President Says Work On Florida Canal Depends On End Of Shortages

President Roosevelt has advised the House Committee on Rivers and Harbors that detailed plans for construction of the Florida Barge Canal will be prepared as soon as man power, material and equipment shortages are overcome, it was reported in United Press Washington advices of July 5. These advices further said:

"He acknowledged the need for the canal as a part of the Atlantic-Gulf intracoastal waterway system in a letter to Joseph J. Mansfield, Democrat, of Texas, committee chairman.

"I have always realized the importance of an adequate and continuous inland waterway for barge traffic along our Atlantic seaboard and Gulf coast," he wrote. "Upon authorization of such a waterway by Congress, steps have been carried on as fast as possible without interference with the war effort. This work has consisted of large-scale dredging operations along the existing sections of the waterway, which, with improvement, could now be used to full capacity. It is my intention to continue these dredging improvements during the next fiscal year."

It has not been feasible, Mr. Roosevelt added, to undertake work on sections of the waterway not now in existence.

"While I cannot foretell how soon that will be," he explained "it is possible that the situation with respect to these shortages will change sufficiently to permit an early dredging of the sea level sections of the canal, and I am accordingly asking the Director of the Bureau of the Budget and the chief engineers to keep me advised of any changes of conditions which would justify the inauguration of this work."

The President's letter was a reply to a communication from Chairman Mansfield on May 25 noting concern over incompletion of the inland waterway system.

R. J. Levy To Admit

J. Kiefer Newman Jr. will be admitted to partnership in Robert J. Levy & Co., 25 Broad Street, New York City, members of the New York Stock Exchange, as of July 15.

"Thinking Now"

(Continued from first page)

here and in other nations can be gained and maintained only by sustained industrial production and by economic interdependence.

"The people of this country, in common with the people of other lands, will prosper materially and spiritually when this war is ended but only if insistence, world-wide in scope, is now voiced for a just and durable peace."

Obviously, Mr. Stanley and his organization are on strong ground in believing that the attainment of these ends can be achieved only by "thinking now"—not by emotionalizing, as do all too many who are exceedingly vocal on the subject today.

Obviously, too, Mr. Stanley and his associates are "thinking now," as are, we are certain, many other men of large affairs in this and other countries.

We need not fear for the future if only the vast rank and file can somehow be persuaded to follow the leadership thus made available to them.

And this we think is on its way.

N. Y. Stock Exchange Weekly Firm Changes

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

Mae U. Ehlert withdrew from partnership in John V. Dunne & Co., New York City on June 30.

Interest of the late Harold M. Baer in Friedman, Brokaw & Samish ceased as of June 30.

Caspar C. de Gersdorff retired from partnership in Harris, Upham & Co., New York City on June 30.

C. Russell Auchincloss withdrew from partnership in Cyrus J. Lawrence & Sons, New York City on June 30.

Interest of the late Leslie L. Vivian in Merrill Lynch, Pierce, Fenner & Beane, New York City, ceased as of June 24.

Interest of the Estate of the late James A. Longwell in J. W. Sparks & Co. ceased as of June 27.

Charles L. Benesch withdrew as a partner in Arthur Wiesenberger & Co., New York City as of June 25.

Joseph P. Searing, partner in Robert Winthrop & Co., New York City, died on June 29.

Aircraft Manufacturers Not Overcapitalized

(Continued from page 99)

1938 but nevertheless represented only 26.5% of net earnings.

A Post-War Appraisal

With present capitalization and a peace-time annual volume of sales estimated at less than 10% of this year's production, what net earnings could logically be expected and what would be the return on capital? Annual sales on this assumption would be approximately $750,000,000.00. Since higher profit margins would prevail in view of there being no excess profits taxes, no renegotiation of prices, etc., net earnings should reasonably approximate $60,000,000.00, or 8% on sales. This would represent a return of nearly 20% on capital funds, compared with 16% in 1938, and would be equivalent to 1.82 times current dividend disbursements.

This appraisal of the early post-war possibilities of America's aircraft manufacturing industry may likely be ultra-conservative, and it will prove reassuring to those who fear that aircraft manufacturers may be overcapitalized for peace-time markets. The contrary would appear to be true, for the probabilities are that some units of the industry will find it necessary to add to their capital in order to meet the demands of the domestic and foreign market of this outstanding "growth" industry.—*Hare's Ltd.*

House Group Kills Guffey Coal Act

The Guffey Bituminous Coal Act was virtually killed on July 6 when the House Rules Committee tabled a resolution which would have extended the law to Jan. 1, 1944.

The act, which was enacted in 1937 to stabilize the soft coal industry through establishment of minimum prices, is scheduled to expire Aug. 23. It has been operating since April 26 under temporary extensions.

The House Ways and Means Committee refused on July 5 by a 13 to 11 vote to approve a measure to extend the act for another two years.

Another temporary extension could be voted by the House before it recesses for the Summer but this measure would have to be brought up under a suspension of the rules, which requires a two-thirds majority.

President Roosevelt in a letter to the Ways and Means Committee made public July 2 appealed for continuation of the act; he stated that the whole coal situation is so unsettled that it would be helpful if any phase of it could be definitely concluded. "With a recess of Congress impending, I am again concerned about the failure to extend the Guffey Coal Act, and I hope the Ways and Means Committee will find it possible to conclude its hearings and report the bill favorably."

Mid-Year Bank Figures Study Now Available

Laird, Bissell & Meeds, 120 Broadway, New York City, members of the New York Stock Exchange, have prepared an interesting analysis of bank stocks revised to include the mid-year figures. Copies of this analysis may be had from the firm upon request.

Situations Of Interest

Stromberg - Carlson, Federal Screw Works, Bartgis Brothers, and Segal Lock & Hardware offer attractive situations, according to memoranda prepared by Herzog & Co., 170 Broadway, New York City. Copies of these interesting memoranda may be obtained upon request from Herzog & Co.

Planning An Antidote For Regimentation, Ruml Declares

Elimination of Mass Unemployment First Requirement of Post-War Period

The fact that there exists in certain quarters "a prejudice against the word 'planning'" probably springs, in the view of Beardsley Ruml, "from apprehension that planning may lead us into a regimented way of life." Mr. Ruml, who is Chairman of the Federal Reserve Bank, made it plain, however, that he feels that "just the opposite is the case"—that "planning is to regimentation both antithesis and antidote." He expressed the view that "free, open, democratic planning, thinking about our National future out loud, will contribute to the success of our form of Government."

Beardsley Ruml

Speaking at the ninth annual conference of the Tamiment Economic and Social Institute at Camp Tamiment, Pa., the latter part of last month, Mr. Ruml also referred in his remarks to the question of post-war employment, as to which he observes that "today most business men agree that the elimination of mass unemployment is the first requirement for the post-war period." He went on to say that "business men are giving thought to the responsibilities of private enterprise in doing its full part in achieving high production and high employment in the post-war period," but he noted, "it would be folly to expect that business can make the transition from full war-time employment to high peace-time employment without cooperation from public government at every level—Federal, State and local." "In addition," said Mr. Ruml, "we require for success in the attack by business and government on the danger of mass unemployment a commitment on the part of government that, through an explicit fiscal and monetary policy, it will act when business, as business, cannot act to sustain employment and effective demand." "It is inescapable," Mr. Ruml added, "that the national state, through an explicit and implemented fiscal and monetary policy, must complement and supplement the activities of private business in the maintenance of high production and high employment."

In full Mr. Ruml's address follows:

"When I selected 'Something to Shoot At' as the title for my speech tonight, I made it very easy to have plenty to talk about. First of all, there are the Italians, the Germans, and the Japanese. They are certainly something to shoot at. And there is the President and Congress. They too are legitimate targets for such verbal shooting as may seem appropriate to 140,000,000 marksmen, each with a hunting license guaranteed in good standing by the Constitution of the United States. There are the alphabetical agencies, the OPA, the WPB, the FCC, and the rest. There is plenty to shoot at here.

"But the shooting I want to discuss tonight is of a different kind. The object of the hunt is less a target than it is a goal. What I propose is that we consider some of the things we should be striving for in the period that will follow the war. In what direction, and at what level should we aim?

"We are all aware, I am sure, of the great popular interest in post-war planning, and I suppose there are few subjects on which there is more general agreement than that we should begin now to get ahead with our post-war plans. It must be clear that planning of the sort we are talking about does not mean regimentation. In certain quarters, there is a prejudice against the word 'planning' that probably springs from apprehension that planning may lead us into a regimented way of life. I feel that just the opposite is the case. Planning is to regimentation both antithesis and antidote. Regimentation arises after planning has failed. Regimentation must depend on force and violence to implement its intuitions and its fanatic will. Free, open, democratic planning, thinking about our national future out loud, will contribute to the success of our form of government by bringing abiding satisfactions in the American way of life. Thus, planning will render regimentation, always distasteful, unnecessary.

"Since a year ago, there has been a great change in public sentiment in respect to thinking about the post-war period. Then no one liked to talk about post-war problems except behind closed doors. Many felt that, with the war far from won, discussion of post-war plans would be at best distracting and at worst hurtful to unity of national effort in the winning of the war itself. Others felt that such thinking might be interpreted as escapist, as sheer flight from reality, the spinning of a dream world that bore no relation to the real, present world of violence and conquest.

"Today this feeling has changed. People want those agencies and individuals who are responsible for thinking about the post-war period to proceed energetically with their work. To be sure, they want first of all to win the war, speedily and decisively, and they want nothing to detract from that effort. Second, they want no plans that represent mere wishful thinking or special interest axe-grinding. They want some practical leads as to where we go from here when the present job is finished.

"The reasons for the change are not hard to find. First of all, the war itself is going better, and although every useful effort must be applied to hasten the day of victory, there are few indeed who doubt the defeat of the Axis powers. As to how, when, and the nature of the victory, there is much difference of opinion; but there is a marked increase of confidence from a year ago. Second, we know that other countries are able to fight and work now, and at the same time to think about the future. And finally, I think that we have come to feel that post-war planning will be unifying rather than divisive, that it will give purpose and drive to our efforts, and will, therefore, help the war effort itself. We have all felt the danger to morale in the question, too frequently heard, 'What's coming out of it all, and who is doing anything about it?'

"There is another deep influence that may explain in part this insistent demand on the part of people generally that something be done now about planning for the period to follow the war. We are a well-educated people, and we know that, even recognizing wonderful material advances, the scientific and technical progress of the last 150 years has never truly ripened in terms of human betterment. We know that in our country, to go no farther afield, we had a decade of mass unemployment of men and machines, and before that we were worried about what we called 'technological unemployment.' We know that during the 30's alone in the United States, we lost forever a product of goods and services which would have amounted to more than two hundred billion dollars. Not only for these material things, but for other values lost as well, we want in the future that this product be created, conserved, and applied to the increased welfare of us all. We, in America, expect this fruition of our energy, our skill and our resources, and it is therefore natural that we should be sympathetic with, and that we should encourage leadership wherever it arises that points the way toward the realization of these expectations.

"It is particularly encouraging that business men have already begun to give thought to what business itself can do to help make real the benefits of high employment. Most of you, I am sure, have heard something of these activities. Individual businesses, local chambers of commerce, state and national associations of business men are developing their plans. One new organization, with which many of you are doubtless familiar, the Committee for Economic Development, has taken the peacetime expansion of private business as its first and single job.

"The Committee is a business man's organization, set up for the purpose of discharging this special responsibility of business in the post-war period, that is, through the expansion and stimulation of business activity on a strictly sound business basis to make the maximum business contribution to high employment and sustained employment. The Committee believes that whatever business can do along these lines, others—particularly government—will not have to do and will not want to do.

"Today most business men agree that the elimination of mass unemployment is the first requirement for the post-war period. Many will go so far as to agree that unless mass unemployment can be eliminated under a system of private business enterprise, private business enterprise will be supplanted by some other arrangements for the production and distribution of goods and services. The demonstration of what we are able to produce under the rules of a war-time economy is unanswerable evidence of what machines and men and organization can accomplish if their technical capacities are given full rein. And we know that at the present time, with the newness of the war-time conditions under which we are working, the organizational and administrative arrangements are of much less effectiveness than they will become with longer experience. And so, for these good reasons, business men are giving thought to the responsibilities of private enterprise in doing its full part in achieving high production and high employment in the post-war period. I hasten to say that as far as I know, these business men would in every case subordinate this thinking about post-war employment to efforts directed toward the winning of the war, and each, in his capacity as a business manager, has made

(Continued on page 109)

WPB Assumes Control Over Use Of Wood Pulp

The War Production Board announced on June 29 that it has found it necessary to assume control over the use of all grades of wood pulp due to the fact that the demands of the several claimant agencies for paper and paper products "have become so insistent and the shortages of wood pulp so severe."

The WPB's Pulp and Paper Division is given power to direct the use of any or all wood pulp by paper mills, paper board producers and manufacturers of other paper products. Hitherto the division has regulated only deliveries and acceptances of pulp.

In Associated Press Washington advices, June 29, it was stated:

"Full exercise of the new powers will start in August, with pulp allocations to be worked out by the Wood Pulp Allocation Committee at its next session on July 19.

"The disappearance of some unnecessary types of paper products for the duration was hinted in WPB's notice that it would use the new controls "to restrict or eliminate the use of wood pulp in the manufacture of the less essential papers." The notice added:

"By withholding allocations of the scarcer wood pulp grades it will be possible to encourage manufacturers of paper and paper products to use pulps and other fibrous materials which are in relatively greater supply, such as ground wood and waste or reclaimed paper, thus conserving the scarcer grades of wood pulp."

No deliveries of pulp of any grade are permitted without express authority of WPB, except shipments which do not exceed one ton a month.

The reserve pool of pulp set up by WPB in May, through instructions to pulp producers to set aside 20% of their output, will be continued, it was stated. Pulp from this pool is delivered only at WPB's direction to meet essential or emergency demands.

Managing A Business For Stockholders Through The Vicissitudes Of Inflation

(Continued from first page)

corporations have succeeded in enriching their stockholders during periods of monetary inflations and deflations when the progress of these changes caused by monetary manipulations have been slow enough to enable the management to carry out speculative planning with the corporation's money. If the management can speculate on inflation or deflation successfully, large profits can be made. On the other hand, if this speculation is unsuccessful, large losses will be the result, and the management will probably lose its job and its reputation, and the stockholders will lose their equity. It is far safer to forego the prospects of large profits and operate on a hand-to-mouth policy during such a period. In order to operate safely, inventory should be kept down to the minimum, contracts should be of short duration, debts and taxes should be paid in full, and all engagements made subject to changing conditions of markets, prices and costs.

Most speculations on inflation or deflation by corporate managements have been a failure, resulting in losses. Changes in prices resulting from monetary causes do not ordinarily continue in one direction for any long period of time, and a change of direction is usually sudden and without notice. For example, during a period of rising prices a corporation management might logically convert a large part of its bank balance into inventory and for a time this might seem very profitable. But a change in policy on the part of the government without advance notice, or a change in opinion on the part of others holding inventory or on the part of speculators may bring a sharp decline in prices and wipe out a portion of the working capital value of the corporation.

The history of inflations and deflations shows that the saw tooth movement of prices and costs makes any long-term planning or speculation very hazardous for corporation managements. Stockholders should demand a sound and conservative policy during such periods. Unless the stockholders know what the policies are and the reasons for them, they cannot know to what extent the management is speculating with the stockholders' capital. Unless the stockholders do know the extent of the speculations undertaken by the management and the reasons for these policies, they cannot pass upon the policies with understanding. It seems, therefore, an obligation upon the management to make known to the stockholders the policies guiding a corporation during such times. From the standpoint of a stockholder as an owner of capital, these policies are far more important than any quarterly or annual auditing or accounting statement. A change of these policies without notice may place the stockholder in a position of speculating with the possible loss of his whole capital when he thinks that he is a conservative owner of capital and intends to avoid speculation. Ordinarily the public stockholders other than a few large stockholders cannot have enough knowledge about a corporation to advise with the management. The best such stockholders can do is to ascertain whether the management deserves confidence to such an extent that they feel safer with their capital in the corporation, or in some other business with a proved management.

These are not ordinary times. A management that stockholders have found successful, and which has made money for the stockholders, may adopt the wrong policy during rising costs resulting from inflation or may hesitate to adopt a policy which will risk the capital of the stockholders without their full knowledge of what is to be done and the reasoning back of it. At such times as these management is in an embarrassing position and should take stockholders into their confidence and explain fully the policies and the reasons for them.

What Are the Earmarks of Inflation to Guide a Corporation Management?

There are almost no earmarks that will guide corporation managements in a delayed-action inflation. The experience with inflation in other countries, without exception, shows that few people recognized inflation until it was too late to do anything about it. The rising prices and the unsatisfied demand for goods, with unemployment and bankruptcies, were only regarded as signs of poverty amidst plenty, and maladjustments. Even the fiscal administrators of the governments and the leading students of money and banking denied that any inflation existed when the value of the currencies had declined to a fraction of their legal pars in terms of foreign currencies because many businesses were not working at capacity, men were unemployed and the foreign demand for their goods was unsatisfied. This decline in the foreign value of the currency was blamed on speculators. In the United States some of the leading economists who have the respect of both government officials and the business executives have stated that there is no danger of inflation until unemployment is erased and production is going at full capacity. Others have stated that as long as there is poverty there can be no inflation. Such remarks are contrary to all the experience with inflation in other countries. The rising costs and prices resulting from inflation create maladjustments, idle men and idle factory capacity, and poverty. Some of the large corporations have made thorough investigations of the evidences of inflation and the probable effects on their businesses. The managements of these corporations have set up policies which they hope will enable them to cope with the false prosperity of inflation and its destructive effects. But the great majority of managements are too busy with the daily job and are content to take their chances and speculate with the stockholders' capital.

Can a Strong Corporation with More than the Usual Amount of Liquid Working Capital Protect its Stockholders?

A strong corporation with a management who recognizes what is happening and adjusts its policies accordingly has the best chance of keeping something for the stockholders. An abundance of liquid working capital, more than usual, and a determination to keep that position is the stockholder's greatest protection when the corporation is otherwise qualified to weather an inflation debacle. A corporation that has no debts and keeps a strong working capital position is more likely to be able to hold out and survive with something for the stockholder.

Inflation brings rising costs and prices and these are often mistaken for evidences of prosperity. These conditions bring demands for higher wages, rents, service charges, advertising cost and higher prices for materials and merchandise. It takes more cash or more bank credit to keep going at the same pace as usual. Any expansion will require still larger amounts of cash. A strong liquid working capital position is soon wiped out and debt obligations begin to grow. A corporation that is already in debt, and has heavy fixed charges, has little chance of surviving with any equity for the stockholders.

Does not this Conflict with the Popular Notion that a Corporation Should go into Debt Because Inflation Will Make it Easy to Pay Off Debts with Cheap Dollars?

This is certainly an erroneous idea. In any country that has had experience with inflation since the World War, the evidence shows that debts were a curse and the sure road to bankruptcy. The corporations that survived the inflations of France and Germany with some equity left for the stockholders had little or no debt and had a policy of keeping debts at the minimum.

This notion of going into debt as a hedge against inflation has been widely spread in this country by speculators, popular writers and cloistered academicians. The evidence proves this method of hedging is the road to financial ruin, and I would rather have the verdict of experience than that of all of the armchair prophets. Only a moratorium or cancellation of debts can save the debtor from insolvency if inflation produces the rising costs in this country that it did in European countries.

If a corporation is accustomed to maintaining a million dollars liquid working capital and rising costs and prices make it necessary to maintain two million dollars to do the same amount of business, there is no alternative but to borrow or to reduce the volume of business. It is just at such times of rising costs that profits decline. If such a corporation borrows either long-term or short-term capital during such a period, it is sure to find it more and more difficult to service the debts, and the creditors less patient. This is the road to bankruptcy and the end of the stockholder's equity. Even in Germany, where the inflation ran its course and a new currency was established in about three years, it was not possible to pay off debts in cheap money. Corporations that had a policy of keeping out of debt were forced into debt and bankruptcy. The reason is that costs rise rapidly and profits disappear, and even cheap money is more difficult to obtain than good money had been during hard times under sound money conditions. Billions of dollars have been lost by well-meaning investors and corporations in this country who were victims of the debt theory between 1933 and 1937.

Why Not Have Fixed Contracts Covering Every Step from the Purchase of Raw Material to the Sale of the Finished Goods or Services and Stabilize Your Profits?

Did you ever try to do business that way? Would you do business on that basis with other people? Take the time-lag in manufacturing between making a sale for future delivery and the actual delivery, if prices and costs change too rapidly, it is possible that you may have a satisfactory profit according to your books but an actual loss. If the buying power of your money has been reduced 25 per cent and you have satisfactorily completed a contract on a 10 per cent profit above costs you have a loss of roughly 15 per cent for practical business purposes. If this is repeated a few times new working capital will be required if the business is to keep going. Any attempt on the part of one business to fix all its contracts and every step in them until it is covered will probably do more harm than good. The fixed contracts you may make in your little sphere will not prevent prices and costs from rising generally and if you expect to go on doing business you will have to conform to the new market conditions or no one will do business with you. The other fellow is looking out for his business just the same as you are. Of course there are some who do not know what is happening and who for one reason or another may have a temporary advantage. But this will pass and on these doors you will find the familiar sign—"closed" for lack of working capital. One of the unmistakable evidences of a long and persistent inflation is the failure of many small shops and small businesses of all kinds.

Maybe the Business Man Should Just Set His Prices High Enough to Cover all Expected Changes in the Value of Money

Any such action is not within the power of the business man even if he knew what these changes were to be. Moreover almost no one will be able to guess the changes or time them. Then the man who tries this game must remember that he has competitors and many of them will not agree with him. To undersell him would be their pride. Every business is a part of the competitive system of prices and costs. A large volume business at low profit may be crushed out quickly. It is the rising volume of business during such times that blinds business men to realities. The individual business can do very little in the matter of regulating prices and costs resulting from inflation. The regulation of the value of money is the prerogative of the government. The government may regulate prices through an emergency.

Why Not Have the Government Fix All Prices for the Duration of the Inflation?

At first thought it would seem that it would be the best policy for the government to fix prices and then carry out an operation upon the money in order to prevent the undesirable effects of inflation. If this could be done quickly and then the price regulations removed, great disorder and losses would be avoided. But there are many difficulties surrounding this proposition. In the first place the government officials will not ordinarily admit of inflation because they are the first to be blamed for it. In the second place they will probably not recognize inflation until it is too late. There will be much disagreement among government officials as to what constitutes inflation and its dangers. There will be equally as many proposed methods of dealing with inflation when it does exist. Inflation when it gets under way will not wait on a debating society. In addition, a democracy will find it difficult to fix prices until prices have risen and created maladjustments and hardship which arouses the public to demand that prices be fixed. By this time the damage has been done. To lower prices would do more damage and create more maladjustments. For example, a business which had been operating from hand-to-mouth while prices were rising for fear of government action which would cause prices to fall may have taken such great losses that finally the management decided to speculate with the hope of recovering something for the stockholders and maintaining their reputation, and they went out on a limb with borrowed money and bought inventory. At this point with the corporation's debts reaching new all-time

(Continued on page 108)

US And Paraguay To Negotiate Trade Pact

The State Department has formally made known the notice of intention to negotiate a trade agreement with the Government of Paraguay and has indicated Aug. 4 as the date of public hearings for presentation of views on "the possible granting of concessions by the Government of the United States."

Those interested may make representations to the Committee for Reciprocity Information on any articles of actual or potential interest in the import or export trade of the United States with Paraguay, the State Department said.

Amberg Candidate For ABA Vice-Presidency

Harold V. Amberg, Vice-President of the First National Bank of Chicago, is the candidate of the Illinois bankers for Vice-President of the American Bankers Association. This action was taken at a meeting of the Council of Administration of the Illinois Bankers Association held on June 25, at which time President George R. Boyles called attention to the fact that over two years ago the Chicago District of the Illinois Bankers Association had formally presented the name of Mr. Amberg for the office of Second Vice-President of the A.B.A., which action later was endorsed at the meeting of the A.B.A. membership in Illinois.

This continued endorsement was given Mr. Amberg, it was said, in spite of his refusal to project himself as a candidate or to make any campaign for the office. It was further pointed out that the bankers in Illinois feel that he is highly qualified, that his leadership would be a broad one nationally, and that it would do much to expand the benefits of banking service to industry and agriculture, as well as to the general public.

Managing A Business For Stockholders Through The Vicissitudes Of Inflation

(Continued from page 107)

highs and profits erased, the government comes along with a price-freezing policy demanded by public opinion and fixes prices at the level of some previous base period which is substantially below the level at which the corporation bought inventory with borrowed money. Other corporations which have raised wages to meet the demands of labor because of rising prices will be confronted with wage costs they cannot pay at the new low prices. Many similar maladjustments could be enumerated as a result of the policy of price-fixing.

After the government officials have fixed prices there will be the tendency to police the markets and keep prices fixed rather than remove the cause for price inflation resulting from monetary conditions. There will be little agreement as to just what should be done and how to do it. As a result probably nothing will be done except try to police the markets and make headlines out of chasing bootleggers and chiselers. Removing the conditions which create these unsocial characters is most difficult. Out of these conditions a new group of politicians who can make a big noise and gather a following will arise. But neither business enterprise nor the public will get much relief. When analyzed, price fixing to prevent prices from rising while the government officials perform an operation upon the money system offers little hope. Price-fixing and policing the markets without doing anything about the causes for inflationary prices will create fertile ground for all kinds of malpractice upon the public and other evils without removing the causes for price inflation.

At what level should a price or all prices be fixed? What measures should be adopted during the period of price-fixing to insure reasonable competitive stability when the fixing is removed? If bottlenecks, rationing, and the procuring of necessary materials for the defense program were the only causes of the rising prices, then the maladjustments in prices would correct themselves when the causes are removed. Hardship or benefit to a few people would be no problem of importance and the future of price inflation dangers could be dismissed. But price inflation that lasts and does everlasting harm to the wage earner and every man who works and saves arises from monetary disturbances growing out of fiscal and banking policies. At this time we have many monetary disturbances which threaten to bring on price inflation. These include our vast hoard of gold and silver, the excess reserves and billions of currency inflation, fiat bank deposits created by the banks buying government bonds, mounting government debts and deficits, to mention only a few of the major factors.

If prices are frozen at this level what will be done to remove the dangers of price inflation when the national defense program has been completed? In all this debate about price-fixing there has been nothing said about the operations necessary to remove the monetary dangers of price inflation while the emergency of price-fixing is here. It is further a reasonable surmise that no research has been done upon this important question.

Price-fixing for the duration of the emergency may be desirable, but then what, if during the emergency the dangers of inflation are not removed but multiplied and expanded?

What Corporation Can Survive Even a 100 Per Cent Rise in Wages and Other Costs With the Stockholder's Equity Intact?

The corporations that will do the best job of it are those that keep out of debt, maintain a strong liquid capital position, constantly adjust their business to maintain a strong position, operate from hand-to-mouth and quit any costly activity that does not pay. These are general characteristics. An individual corporation may survive intact because of good management, or successful speculation. Or because of the nature of the business, some corporations may survive. Debts and fixed charges eliminate from consideration most utilities and railroads, banks and insurance companies required to invest in bonds, merchandising corporations, and a great variety of manufacturing and miscellaneous businesses. No doubt you have read that corporations producing raw materials such as copper and oil are good inflation hedges. They may be and they may not be at all. If such a producer of raw materials, which has rich deposits, is out of debt and is strong with cash and can avoid debts during the period of rising costs and prices, it may be one of the best inflation hedges. But how many such companies do you know? There are almost none. A large integrated oil company whose common stock is regarded as a sound investment at these times may have little left for the common stockholder after rising costs and debts resulting from inflation which will seriously affect costs in the producing, manufacturing and marketing ends of its business. An oil producer with large reserves which has enough liquid capital to live through and can close down during the period of inflation will save more for the common stockholder but during this period income would be wiped out and the price of the stock might sink to a low level in good money. These same problems face any corporation producing raw materials. A large integrated oil company would not be allowed to shut down; nor would any other producer and manufacturer of raw materials necessary to the public welfare.

Gold mining stocks are not necessarily an inflation hedge even if gold itself is the best inflation hedge. A gold mining company with proved resources can only increase its production slowly. It is true that the currency value of the gold it does produce would increase if the gold value of the dollar decreases, but if the costs of operations rose more rapidly than the currency value of gold, or if the government fixed the prices of gold or confiscated the gold at a fixed price and let costs rise, the mine could soon be forced into bankruptcy. The marginal mines are certainly not suitable hedges unless they have proved resources and will close down with enough cash to cover costs and taxes for the duration of the inflation period.

Chemical stocks and the stocks of amusement companies have been widely tipped as inflation hedges. Such generalities are worthless and misleading to many people. These corporations may come through the inflation with the equi-

(Continued on page 112)

Planning An Antidote For Regimentation—Ruml

(Continued from page 105)

sure that his responsibilities for present war-time production are being efficiently discharged.

"But it would be folly to expect that business can make the transition from full war-time employment to high peace-time employment without cooperation from public government at every level —Federal, State, and local.

"These measure of cooperation between government and business are good, but in my opinion they are not enough. In addition, we require for success in the attack by business and government on the danger of mass unemployment a commitment on the part of government that, through an explicit fiscal and monetary policy, it will act when business, as business, cannot act to sustain employment and effective demand.

"To put it in another way, it is inescapable that the national state, through an explicit and implemented fiscal and monetary policy, must complement and supplement the activities of private business in the maintenance of high production and high employment.

"To make this propostion more effective than a mere statement of intent, there are a number of corrective measures that the government should adopt on its own behalf and for the sake of its own effectiveness. At the present time, even if a fiscal and monetary policy to complement and supplement the activities of private business were generally agreed upon, there is no possibility under the present organization of the Federal government of its being made operative or effective.

"There are three principal causes for this inadequacy, and ways must be found for eliminating them, or at least reducing the severity of their influence.

"The first change that needs to be made is in the organization of the administrative branch of the Federal government. The administration of any fiscal policy at all calls for cooperation among agenies and for singleness of policy in at least several respects: the Federal budget; the Federal lending policy at home and abroad; the credit and monetary policies under the jurisdiction of the Federal Reserve System; the creation and refunding of Federal debt, which is now managed by the Treasury; the tax program; and, possibly, the activities of the Securities and Exchange Commission. These several functions are all intimately associated in giving reality to any governmental fiscal and monetary policy designed to cooperate with private business in achieving high productivity and high employment. These functions are scattered among several departments and agencies, and, during the 30's, there was clear evidence of conflict in basic policy. This meant that during that period the administration had no consistent or continuing fiscal policy and was unable to use the full power of fiscal measures to support its attempts to reach the humane goals it had set for itself in other fields.

"A similar situation exists in Congress with the several committees of both House and Senate that must consider legislative policy on fiscal and monetary matters. Even if a consistently strong policy should emerge from the administrative branch, it would be subject to delay and possible damaging amendment before the necessary legislation would be forthcoming. As far as taking the initiative is concerned, Congress is handicapped both by organizational and procedural difficulties and also by grossly inadequate staffing of its technical services.

"Another very serious difficulty is the lack of close collaboration on policies of expenditure and taxation between the Federal Government on the one hand and the state and local governments on the other. This weakness has been well understood for years, but the initiative which might have been expected from the Federal Government in analyzing the problem and making some preliminary suggestions has not been forthcoming until recent weeks. The Report of the Treasury Committee on Inter-Governmental Levels treats of this problem in a somewhat timid and ineffective way, in sharp contrast to the bold assurance of the more recent Treasury report on currency stabilization as among the sovereign nations of the whole world.

"Here, at the point of fiscal and monetary policy, where the relations between government and business are of the greatest importance for the working out of the post-war employment and production problems, business may properly be apprehensive. It may be apprehensive, not that the intentions of government will be hostile or even indifferent, but that, unless the preparatory organizational work is done now, the Federal Government will be helpless in executing even the most elementary collaborative program.

"A fiscal policy that complements and supplements the activities of private business in the maintenance of high employment is sometimes called a compensatory fiscal policy. There is not the time for a detailed discussion of the elements of such a policy. But there are certain points that are worth mentioning to avoid misunderstanding.

"A compensatory fiscal policy does not contemplate permanent budget deficits as a necessary element in the economy. On the contrary, it allows for the possible over-expansion of private business activity which would be checked by public debt retirement.

"Such a policy does not require spending for its own sake, nor does it approve wasteful expenditure. Sound policy dictates that the activities of any public body should be determined by policy considerations as to the appropriate field of public activity, not by the generalized needs of the economic system for expansion of purchasing power. Sound policy also requires that public expenditures should be made with efficiency and with high standards of productivity.

"But given the wide area which is generally agreed to be suitable for common undertakings through public agencies, the stimulus to purchasing power when needed may well come through reduction of taxation. Why not leave at home for expenditure by the individual, income that otherwise would have to be pumped out again in order to maintain high employment? Such reductions in taxes should be made where they will do the most good in creating demand and in encouraging private enterprise. And it is particuraly important to notice that under a compensatory fiscal policy, if stimulus is needed, we need not wait for a balanced budget to proceed with a program of reducing taxes.

"Much has been said and written about public works as a means of providing employment and of evening out the business cycle. Lately, we have become familiar with the phrase 'a shelf of projects' to be ready if business should become depressed.

"We must not expect too much from a public works program as a general support for high employment. If we believe in the policy of no wasteful public expenditure and no spending for its own sake, the administrative difficulties make proper timing almost impossible, and reduce the potential volume well below the requirements of a true depression. Public works alone cannot do the job.

"The most we can expect, and this is no small gain, is that public works can be planned and undertaken in such a way as to even out the activities of the construction industry itself, thereby providing a reasonable level of construction throughout the year and year after year. Some rough approximation could be made of what aggregate employment in construction would be suitable over a period of years, and to maintain the desired volume of construction, public works might be undertaken when private construction fell off. Of course not all public works could or should be deferred, but many optional plans could be ready when the need for public works construction employment became apparent.

"But, as I have said, it seems to me unreasonable, indeed I feel that it is reckless optimism, to expect that public works expenditures can be counted on as a balancing factor for the economy as a whole. Nevertheless, if we could only achieve reasonable balance in the construction industry itself a great deal would have been accomplished.

"A reasonably continuous level of activity in the construction industry within the year and over the years would greatly increase the efficiency of the industry and any given level of employment would yield a larger and larger product as the years went by. The traditional recurrent idleness of men and equipment in the construction industry has forced for sheer survival the adoption of practices which all deplore.

"These practices, I feel sure, can be largely eliminated once the industry comes to have confidence in continuity of activity. But as these practices now exist, they are a serious obstacle to the use of the construction industry as a publicly supported agency for employment.

"I hope that the construction industry will take the initiative and attack the evil of restrictive conditions. But I also feel that the leadersnip in the industry would be heartened if the volume and timing of public works construction were such as to give promise of a reasonably continuous level of public and private demand over the years.

"The attainment of high levels of employment will still leave many individual men and women in need. A modern industrial society with its enormous productive capacity can give a certain minimum protection to the individual citizen against the occasion of unemployment, destitution in old age, accident, and disease. It can assess the burden of this minimum protection with reasonable fairness against the aggregate national product. I do not believe that such humane provision will weaken our energies or our ambitions, nor do I feel that we require the spectacle of fortuitous human distress to teach us the wisdom of avoiding error and evil.

"Not only in the area of high employment, high production, and humane protection, are there goals to aim at. In our democratic representative process, there are also objectives that are worth thinking about.

"During the discussions of recent months about the pay-as-you-go income tax measure, the public watched the operations of the legislative process with unusually close attention. Inevitably, as a result of the ups and downs and delays, Congress came in for a lot of criticism. In spite of this criticism, some of which was just, and some of which was not, it is a good thing that in this country we have a Congress to work with.

"This does not mean that Congress is perfect, or even that as a democratic legislative body it is not susceptible to the improvement that comes with the passage of time and from the lessons of experience.

"Some of this improvement must come on the initiative of Congress itself. Change and modernization of rules, precedents, and procedures should be undertaken, changes that would not weaken the essential integrity of the representative process, but that would make it less clumsy and more effective, more nearly in fact as we picture it as an ideal. The initiative for these changes must come from Congress itself, because in Congress is to be found the wisdom, the intuitive sense of balance, and the authority that can bring helpful reforms into being.

"But there are some things that Congress cannot do alone, that require the initiative and support of the people generally, the citizens whom Congress serves.

"I think we must recognize that membership in Congress is the top legislative job in our very important country, that it is therefore a very important job both for our country and for the world.

"I think we must recognize that membership in Congress has become a full time job, not a job that can be fitted in between crop seasons, or between law cases or while a partner can handle the business alone. The time required in Washington has grown to be and will continue to be extensive, and the time at home is fully occupied with duties that arise from legislative responsibilities.

"I think we must recognize that membership in Congress requires unusual talents of intellectual equipment, energy, courage, and the rare ability to make oneself acceptable to a constituency through the operation of our democratic process.

"We should also encourage Congress to provide itself with much more adequate technical and professional services. Congress has not made the provision for its own needs that modern times require. As a result it has been too dependent on outside experts, occasional and fortuitous consultation, and on the permanent establishments of the administrative branch. These good sources of information and suggestion should not be brushed aside, but Congress should have its own technical services fully equipped to handle problems as the recognized servant of Congress. Such services could be built up in a number of ways. For example, the Library of Congress lends itself admirably to important extension and development. In time, it might become the cornerstone of a national university of a special type, a great institution of learning, serving the people generally and at the same time available to the members of Congress and responsive to every technical need.

"We must give due attention to our representative process and the measures and attitudes that may strengthen it. Our economic and social problems are exceedingly important, but we need not for that reason neglect our legislative institutions, on which so much depends, as we move on to extend and enrich our democracy.

"These then are a few of the things we have to shoot at—high employment and high production, maximum activity of private enterprise, an effective compensatory fiscal policy, prompt tax reduction, public works planned to contribute to a more stable and more efficient construction industry, a minimum protection against the hazards of life, and finally an improvement in the operations and position of our representative legislative process.

"These are splendid goals and they give us great promise for the future. But standing before these goals are those more immediate targets, the Italians, the Germans, and the Japanese. Let us use our goals to give us unity and energy and sense of direction in attacking these targets. The war comes first, always, and our thinking about the future can help us in the winning of the war."

WPA Now Liquidated

The Works Project Administration turned back $130,000,000 to the Treasury on June 30 and went out of existence, it was reported in an Associated Press dispatch from Washington which further said:

Only a small "liquidation staff" of the depression-born relief agency remained at the end, getting records and accounts into shape for a final report on its operations.

The records will show, officials said, that WPA spent some $10,500,000,000 and employed 8,500,000 from its inception in 1935.

The turnover to the Treasury, they said, was $105,000,000 in unexpended funds and $25,000,000 in supplies and materials.

Says U. S- Can Carry $200 Billion Debt, Preserve Credit And Avoid Inflation

(Continued from page 99)

are running close to $7,000,000,000 a month" and that our public debt is now running to $135,000,000,000. According to Mr. Weisman, "it is not so much the sum total of a nation's indebtedness that is important from the point of view of inflation as the disposition of the rank and file toward that indebtedness." He went on to say that over the last 40 or 50 years "the British have carried what we would regard as a very heavy indebtedness." He went on to say and have done it while maintaining a sound economy in about every respect."

"I think that the answer to our question," he said, "lies fundamentally in whether or not we are going to pursue the British thinking with respect to this." He further said:

"Is it going to be important to us as American citizens and to you, as business executives, to preserve the integrity of the promises of the United States Treasury to pay, or will you decide sometime in the next four or five years that as individuals and as business corporations you would be better off taxing the other tax, by throwing the burden over and wiping the slate clean. What you decide about that and what we decide about it I think will be determined largely by where the bulk of the indebtedness is as of the end of the war. If it is in our own lock boxes, if five or ten or twenty million American citizens have long-term war bonds, these 1964-69 that we are urged to buy now, in their safety deposit boxes when the war is over and if they think of those as a part of their estates and clip the coupons and keep the principal intact, then I think we shall find that we shall carry this debt safely, shall meet interest and principal payments as they fall due, protect and preserve our public credit and avoid a destructive inflation."

The address of Mr. Weisman, delivered before the War Conference of the National Association of Building Owners and Managers, follows in full:

In the brief time that I have to discuss this matter with you today, I want to consider two phases of the inflationary process, the one to which a good deal of our attention has been directed to this time, the other to which more and more of it needs to be directed if we are to finance this war without a really serious disruption of our whole business and financial structure.

A little more than a year ago President Roosevelt first addressed himself to the subject of the avoidance of inflation and he began by saying he didn't like the word "inflation," that there was disagreement among people as to what it meant and that one individual had one thought in mind when inflation was being discussed and another quite a different topic, so the President said: "What I propose to talk about instead of inflation is high cost of living," and as you are well aware, as a result of that first broadcast on the high cost of living some mild measures were adopted by the OPA and other Government agencies looking toward the placing and maintenance of price ceilings.

Now if the high cost of living and a rising trend of prices are of the essence of inflation, then I need not to say at this late date that we cannot avoid inflation, because that phase of inflation is definitely here and there is every reason to believe that we shall see more rather than less of that, and for a perfectly obvious and natural reason: Prices rise as a result of a combination of these two circumstances. On the one hand, scarcity or declining supply of goods, and as we have diverted more and more and more of our labor and material and energy to the production of planes and tanks and ships, less has been available for the production of civilian goods, and as you know, civilian goods in an ever-wider area have been growing scarce and week by week they become scarcer, their prices rise and, of course, that is natural, and I should say unavoidable and not necessarily undesirable.

The other phase of this same subject of inflation is, as you know, the great increase in employment that is a product of the war, the free spending, for which the Government is itself responsible, and the pouring into the stream of circulation literally of billions of new buying power that was not there a year ago or two years ago when this conflict first began.

So that with the declining volume of goods on the one hand and the increasing supply of money and big deposits on the other, high prices follow as a matter of course. There is no means by which that phase of inflation may be avoided.

But that isn't the phase of inflation that creates great uneasiness in the minds of the people today. To be sure, we wish our weekly or monthly incomes would go somewhat further in roast beef, and some people with liquor, but we can very readily adapt ourselves to that aspect of a war economy and in spite of the minor inconveniences to which we are all subjected I think it is fair to say that no one in this room has really suffered any serious hardship as a result of the kind of inflation I have discussed to this time. That doesn't mean that steps should not be taken to prevent further rises in the cost of such essentials of living as cheap and medium-priced food or cheap and medium-priced clothing, but beyond that I am not so much concerned about the price structure as such.

I am concerned rather, ladies and gentlemen, about the phase of inflation about which our political leaders have to this time shown very little inclination to consider or to discuss, to say nothing of taking the steps necessary to prevent. I have in mind now the explosive or destructive type of inflation which is a product of great imprudence in public finance, extending over a very long period of time, and involving very heavy public expenditures that are financed not by taxation but by great expansion of the public debt. And I want at this point to review briefly the history of American public indebtedness over the last 25 years or so. I want to go back to the period immediately preceding World War I, because whenever I talk about the danger that confronts us on this explosive inflationary front, people say: "Oh, don't be uneasy. We went through this thing in 1917 and '18, and we came out whole. Our currency was sound, our credit was good, we made a quick recovery from the war, and there is no reason for believing that that phase of our economic history will not be repeated."

I think, ladies and gentlemen, that our experience, our fiscal experience of World War I throws very little light on the probable consequences of the fiscal experiences of World War II, and I believe that for two reasons. The first is that we entered World War I virtually free from public indebtedness. We had conserved over a long period of years and over a very prosperous period our national credit to the end that when an emergency presented itself we could draw upon it freely, use it as far as we needed to employ it to meet the emergency in question, and then find ourselves perfectly solvent after the credit had been pretty well exhausted, and the emergency successfully met.

Instead of conserving our credit in the twenty-odd years between World War I and World War II, we drew heavily upon that credit resource to finance an emergency or a series of emergencies that were of a minor and almost phoney character by comparison with the emergency that confronted us when we were attacked at Pearl Harbor in December, 1941, and instead of having then a great fund of credit with which to meet this emergency we found that we had used billions of credit for financing the minor emergencies of the 1930's which we now realize we need and need imperatively to finance the genuine emergencies of the 1940's, and if you believe that we are likely to avoid any serious inflationary consequences as a result of financing this war, just bear in mind this fact: that we started to finance World War II with a public debt that was well in excess of the $45,000,000,000 ceiling that World War I Congress had set as the upper limit of prudent public debt expansion. That is to say, we had a greater indebtedness as of Pearl Harbor than our Congress believed we could safely carry as recently as 1917.

Now we have entered this war with a situation on the side of taxation that is similar in many respects to the situation I have reviewed with respect to World War I. We have paid income taxes, those of us in this room, under such unhappy and uncomfortable conditions that I suppose If I asked the people here how long the Federal Income Tax has been in effect everyone would say from the adoption of the Constitution. It seems that long, but as a matter of fact, ladies and gentlemen, the income tax amendment to the Constitution was passed in 1913, and when we found ourselves confronted with the expense of World War I, the field of income taxation was virtually untouched, the rate on corporate incomes was 1%. How would you real estate people like that today? The rate on individual incomes in the upper brackets was 8%.

So you see what I mean when I say that the tax resources of the nation were virtually untouched and that we had available on the borrowing side a fund of credit that had been reserved or conserved over a period of almost half a century, and it is by virtue of that happy combination of circumstances that we went through World War I and financed it without imposing any serious strain on our public credit.

Now what was the situation on the tax side as of Pearl Harbor? I have indicated what it was on the debt side. We had a public indebtedness of about fifty billion dollars. On the tax side before Pearl Harbor we had likewise wasted a good deal of our substance in riotous living. We had raised taxes both on business enterprise and on individual incomes in the upper brackets about as high as it was possible to go consistent with the maintenance of the then prevailing rates of income, and the best testimony I can offer in support of that point is that the Federal Revenue Act of 1942, which was characterized by its author as an all-out tax measure, was calculated to produce only nine billion dollars more than the Revenue Law of the preceding year, which was a peacetime measure.

So, to reiterate, we are confronted with this very grave fiscal emergency because we started to finance this war with our major tax sources substantially exhausted and with our public credit already under a heavy strain as a result of imprudent financing over the decade of the 1930's.

And, of course, to aggravate the situation, the costs of this war are running into figures that are unprecedently high. It is no proof of our ability to finance this war successfully or without a serious disruption of our economic life to say we financed World War I successfully because we had spent in preparing for this war before Pearl Harbor more than all of the cost that was incurred in financing World War I.

Now we are merged in expenditures that are runing close to seven billion dollars a month. For the fiscal year beginning this July first, the budgeted expenditures are almost exactly one hundred billion, which means a little more than eight billion dollars a month, just about the annual average cost of financing the whole Federal establishment in the decade of the 1930's, about twice the average cost of financing the entire Federal establishment in the 1920's.

So, ladies and gentlemen, you are thinking about a situation here for which there is no precedent in our history or in the history of any other nation.

You perhaps noticed in the papers the report of the British budget for the next fiscal year. It contemplates expenditures of about twenty billion dollars, about one-fifth of what we are doing, so we are dealing with a situation here for which there is no precedent and for which history, I think, affords no illustrative literature of any type.

This is not a bond-selling speech, although if anyone desires to go out and buy a bond on his expense account while he is here, I think that will be all right with me, but in opening this latest bond drive, Mr. Morgenthau said that we should have to borrow seventy billion dollars this year, and the question that I want to discuss with you in the few minutes that remain is whether it is possible for the United States to borrow seventy billion dollars in one year and avoid an inflation of a destructive type, and by an inflation of a destructive type I mean an inflation in which people are anxious to get out of money because they think it is on the way to becoming worthless, and to get into real things, into real estate, into precious stones, into canned goods, or anything of permanent value. That is what I am talking about, and we have seen, unfortunately, in recent months some evidences of thinking of that kind in the minds of a good many people.

I think that we are talking about a question about which at this date a reasonable difference of opinion may well be entertained. There are people whose judgments I respect who think we have gone so far in unsound financing with the public debt, now running one hundred and thirty-five billion dollars that there is no turning back, that the most prudent financing from this time forth would not save us from a really destructive inflation. I am glad to say I am not of that opinion. I think we have time, but I think the days of grace are comparatively few. I should be inclined to believe that the answer to the question we are addressing ourselves here to do, can we avoid inflation, will be somehow provided in the events of the next three to six months.

As I see the situation, it is not so much the sum total of a nation's indebtedness that is important from the point of view of inflation as the disposition of the rank and file toward that indebtedness. Those of you who know anything of British finance and economic history over the last 40 or 50 years know that the British have carried what we would regard as a very heavy indebtedness over all these years and have done it while maintaining a sound economy in about every respect.

On the other hand, France, just across the Channel, with a comparable indebtedness, has gone through not one but not less than four separate inflations of a destructive type, for the reason that the disposition of the French toward their indebtedness was quite different from that of the British, and wherein the difference? In the first instance the difference will be found in the attitude of the British on the one hand and the French on the other, toward taxation. The British have always believed that it was tremendously important for the British Government and the British economy as a whole to meet all of their obligations, to observe the strictest kind of integrity with respect to all kinds of financial transactions, that the life of Great Britain as a creditor nation and as an exporting nation and as a world banker was dependent upon the observance here not only of the letter but of the spirit of all of the British obligations.

The French, on the other hand, have never liked to pay taxes. They have said: "Let the future generation take care of it. Let us borrow to the limit of our capacity. Perhaps there is a pot of gold at the rainbow's end that will make it unnecessary for us to assume this heavy burden."

I think that the answer to our question, ladies and gentlemen, lies fundamentally in whether or not we are going to pursue the British thinking with respect to this thing or the French thinking. Is it going to be important to us as American citizens and to you, as business executives, to preserve the integrity of the promises of the United States Treasury to pay, or will you decide sometime in the next four or five years that, as individuals and as business corporations, you would be better off taxing the other tax, by throwing the burden over and wiping the slate clean. What you decide about that and what we decide about it I think will be determined largely by where the bulk of the indebtedness is as of the end of the war. If it is in our own lock boxes, if five or ten or twenty million American citizens have long-term war bonds, these 1964-69's that we are urged to buy now, in their safety deposit boxes when the war is over and if they think of those as a part of their estates and clip the coupons but keep the principal intact, then I think that we shall find that we shall carry this debt safely, shall meet interest and principal payments as they fall due, protect and preserve our public credit and avoid a destructive inflation. And, of course, the more widely these bonds are held, the greater the disposition of the majority of us to favor the observation of the letter and the spirit of the contract. Our financial interest will be in preserving the credit rather than in destroying it.

But if future bond campaigns go no better than that of December and of April bond campaign I am talking about went, and if it is necessary for the banks, particularly the large banks to take billions and billions more of this government debt and if the war should end with the banks of the country, the Federal Reserve Banks and the large city banks of the country holding one hundred or one hundred fifty million of the public debt of the United States, I should have the gravest doubt of our disposition or the disposition of our children to assume the burden in the form of taxation of honoring those contractual obligations, because the end of the war is certain to bring a period of economic distress of one kind or another. We are going to be confronted for a decade and probably for a generation with such taxes as this nation has never seen before, and sometime in the process of trying to work out these postwar difficulties, the thought is going to occur to somebody that it is the heavy interest on sinking fund requirements of this public debt that is the real millstone around our necks, that that is the thing that makes it impossible for us to lay a foundation for a sound and quick business recovery and at that point when enough people are persuaded that that is the difficulty, you may be sure that some Huey Long or some Gerald L. K. Smith or some Father Coughlin will come along and say to the American people, "Don't pay tribute to these rich bankers," and

(Continued on page 112)

Managing A Business For Stockholders Through The Vicissitudes Of Inflation

(Continued from page 108)

ties for stockholders worth something or they may not. Their success depends on their financial position, management and the operations during the period of inflation. There is so much erroneous information about, to catch suckers, that it is not possible in the limits of this paper to analyze it all, but if you are interested in preserving the equity in your own corporation, or in corporations whose shares you may own, to understand the possibilities requires an investigation of the nature of the business, financial strength, as well as policies and preparations to withstand inflation. In many corporations nothing can save the equity if we are to have an extreme inflation such as took place in France after World War I.

When the defense program is completed or the war is over the volume of business and prices will fall but costs will not fall as much or as rapidly. An inflation explosion could occur before the defense program is over but that seems doubtful unless the war lasts several years. During the rapid stages of inflation the prices of almost all common stocks may go up, but most of them will finally fall more rapidly than they rise. Many will survive but a large per cent of them with only a fraction of their present relative value, and many will have the value entirely erased, while some will go to new high prices and maintain the relative purchasing power or enrich the holder. This depends on the ability of the corporation and the management to cope with these conditions. Timing the coming of explosive inflation as it will affect the value of corporation equities is a guessing and speculative undertaking. It would seem best and safest to take the road of least guessing and speculation and thoroughly prepare for it. The government may delay inflation by its monetary and price policies and by management schemes, but it seems to me inflation cannot be avoided permanently unless we have really come to a "new era" in the history of money, prices, inflation, and government management. Most new eras have finally turned out to be old mistakes and this one, I dare speculate, will not be an exception.

Should a Corporation Transfer Its Liquid Capital Into Money of Some Other Country?

At the present time what country would you rather have your money in than the United States? There is no other currency any better or safer just now. Of course if we reach the stage that the dollar in foreign exchange begins to fall below its pegged gold value it may be possible for some corporations and their bankers to shift into the foreign exchange of other countries for a short period and then bring the money back with a multiplied number of dollars. All this depends on judgment, timing, foreign exchange regulations, and the conditions of foreign currencies at that time. During the German and French inflations after the World War many corporations, banks and insurance companies were enriched by shifting their liquid balances into the pound, the dollar, and the Swiss franc.

If Prices and Costs Are Going to Rise, Would it not Be Some Protection for a Corporation to Buy Inventory of All kinds, and Even Borrow Money and Buy Futures in the Commodities Markets?

If a corporation decides to buy inventory and futures in commodities in excess of its operating needs, at what price will it buy? Already prices of most raw materials and many finished goods have risen sharply and if and when the war ends a crash seems inevitable. Just what will happen to the equity of corporations that get caught with inventory bought with borrowed money is an old story that ought to be familiar to most corporate managers. These fluctuations in prices are to be expected and government control, while an added uncertainty, may prevent prices from rising, it will not stop them from going down or make buyers buy when prices do go down.

There is a time for everything. Corporations using nonperishable materials such as copper, hardware, lead, lumber, and the like, which had excess liquid capital and saw the trend of these prices when they were very low, might well have stocked up their needs for some time ahead. But how many corporation managers or other people foresaw the rise in prices? For a corporation that must borrow money it is seldom, if ever, desirable to speculate on inventory no matter what the low level is to which the price has fallen. If you will trace the history of corporate experience with inventory speculation, you will find that while great profits have been made, by and in the large greater losses have been sustained. Inventory speculation is one of the most provocative causes of corporation bankruptcy. Rising prices caused by inflation never go in a straight line but fluctuate more violently because of the added uncertainties caused by rising prices, speculation and threats of government control. If bonds come due or bank loans have to be renewed during a period of price collapse, embarrassment is sure. Even for a corporation that has surplus liquid capital the buying of inventory at these times and at these prices as hedges against inflation is not sound policy. Less profits may be made but it is safer to operate on a hand-to-mouth basis. There are some instances of corporations that have hedged against inflation by providing for a continued source of raw materials that seems safe and wise but they are few. At least one or two large newspaper publishers foresaw the coming inflation during recent years when prices were low and purchased forest land at very low prices to provide for their paper needs for a generation to come. In at least one case a large newspaper has provided pretty nearly to be self-contained for a long time. Almost all its needs to continue publishing its paper have been provided for, including its own ink production. While provisions have not been made for labor and taxes in the indefinite future, its strong financial position seems to insure greater protection on these matters than most corporations can hope to have. But this is an exceptional case. Few publishers are well enough off to provide for such protection. In the case of most manufacturing, mining and merchandising corporations, no such hedges can be provided. Railroads and utilities certainly can find no comparable hedge. As for buying inventory in finished goods for some years ahead, that would be the height of folly. An officer of a mail order company tells me that twenty per cent of the items listed in their catalogue did not exist even in 1939, and more than forty per cent of them did not exist five years ago. Stocking up on finished goods inventory is a good way to make sure of losses that cannot be recovered.

If Prices Rise Faster than Wages, Won't the Corporation Engaged in Manufacturing and Merchandising Be Able to Accumulate Increased Profits and Build Up Liquid Capital?

For a while prices may rise faster than wages and generally this is the case. But while prices of finished goods are rising the prices of raw materials are also rising. Then when wages are increased and a price panic occurs because of fear

(Continued on page 113)

Says U. S. Can Carry $200 Billion Debt

(Continued from page 111)

don't in this connection overlook the fact that Father Coughlin's start was with an attack upon the Federal Reserve Banking system, of which he knew nothing, but it was a fine text for a demagogue to preach sermons about, and I can think now of half a dozen people who are more or less in the spotlight now, who are candidates for that job of American demagogue and dictator when the appropriate and convenient time comes.

And let me say this in connection with that, the American tradition for more than 100 years has been a tradition of popular animosity toward large banking institutions. There was the bitterest opposition to the creation of the first bank of the United States and again to the second, and after Andrew Jackson had been elected President for the second time, he set out to destroy the bank on the representation that it represented the powerful business and financial interests of the country as against the interests of the small agriculturists and small merchants, and so on. And almost 100 years later to the day, when Franklin Roosevelt in a very dramatic inaugural address got up to commit himself to drive the money changers from the temple, he was appealing to the same animus. He was saying to the American people the banks, big business, Wall Street—whatever that means—are unfriendly to the small merchant, to the small manufacturer, to the farmer, to the laboring man.

So what I am really saying, ladies and gentlemen, is that in this effort to sell billions of government bonds to individual citizens, we are tardily and quite belatedly undertaking to protect ourselves against the kind of demagoguery that we shall see altogether too much of when business begins to taper off after the war and when we are confronted again with some of the problems of reconstruction and rehabilitation to a normal civilian life.

Now the desirable thing, of course, would be to distribute these bonds into every home so that every family would have a real financial interest in observing the spirit and letter of these agreements. It would be desirable also if we could considerably increase the amount of revenue to be provided from this time forth by taxation, so that the actual amount of debt expansion would be considerably less than Mr. Morgenthau now estimates. But after what we saw with the congressional proceedings on the Ruml plan, I think we may as well write off now the hope that any appreciable increase in taxes will be effected this year, and I think it will be too late after a year to do anything about the thing we are talking about, which brings me back to the conclusion toward which I am trying to bring you, the conclusion toward which all of these remarks are pointed, that we can carry a debt of two hundred billion dollars, if need be, provided it is widely held and provided we think of it and our children think of it not as immediate income to be converted into cash and used for the purchase of new automobiles and new pleasure trips but as a permanent part of our estates as a new generation of capitalists, to be saved, and the income only to be drawn upon.

or government threat to stabilize the currency or freeze prices as of some base period, wage costs will not fall, and thus costs will rise more rapidly than profits, and the volume of business will shrink as the costs and prices rise and the great mass of consumers find that their income will not buy the supply of goods they are accustomed to use. At such times with high prices and high costs many businesses will decline in volume and deficits will be substituted for profits and finally bankruptcies for bank accounts. In brief, the experience of other countries during the inflations of recent years and the experiences in the United States following the Civil War, and the first World War show clearly that as prices and costs mount with their saw tooth habits profits disappear, speculation increases, reckless business habits develop, unemployment rises and failures among small businesses increase rapidly.

During the whole period of a cycle of inflation the wage earners in mass are losers. At times rising wages make the laboring man think that prosperity has come but rising prices will soon change that. The readjustments that accompany the strains of rising costs and prices caused by inflation and the aftermath of deflation leave poverty, unemployment and hardship among large numbers of the wage earners of the community. Of course many small businessmen and some of large affairs are reduced to poverty but their numbers are relatively small compared with that of wage earners. The burden of supporting this large unemployed class must inevitably fall upon the taxpayers and the businesses that do survive. If anyone thinks he has a chance to make big profits out of inflation, and keep those profits he is not well informed on the experiences with inflation taught by history even during periods when the governments were less paternal than they are today. In all of Germany and France not a single corporation has been found that made enormous profits out of the inflations. In fact none are available that made any profits if they kept their business within the country. There are corporations that had large liquid funds transferred to London and New York and after the inflations were over and sound money restored these funds were brought back and their buying power was much larger than before the inflations because the general level of prices in gold was very much lower than before the inflations. For example, the prices of real estate in Germany after the restoration of the new gold currency in 1923 were from 20 to 40 per cent of the prices before the war. A corporation with funds abroad had a much larger purchasing power with these funds because of the decline of prices brought on by the general poverty of the people whose liquid purchasing power had been destroyed with the old currency.

An outstanding example of what appeared at one time to be great profits from inflation that turned out to be great losses instead, and finally bankruptcy, is the vast fortune of Mr. Hugo Stinnes. With cheap money and even borrowed money he bought many steel plants, coal mines, factories, hotels and other properties. He was regarded at that time as the Rockefeller of Germany. His wealth was so great that it was the subject of comment throughout the world. Even books were written and published about the great fortune he acquired during the inflation. But this all ended in bankruptcy for Mr. Stinnes and his family, because his liquid capital was destroyed, production came to a standstill because of the poverty of consumers, and taxes and depreciation and costs of maintenance soon plunged him into debt for more than his inflation hedges were worth in the new price economy of his country.

Why Should Not a Corporation Use Surplus Capital or Even Borrow Capital and Build Necessary New Buildings, Buy New and Durable Equipment and Place the Plant in Perfect Condition?

The building of new buildings or the purchase of all necessary equipment and tools for a generation to come has been recommended as a hedge against inflation for a corporation. But this needs to be examined before carried too far. Buildings have been changed rapidly during recent years, and scientific management and modern inventions promise to require changes even more rapidly in the near future. Buildings deteriorate rapidly when idle and during the depression that will follow this inflation and the necessary readjustments, taxes and deterioration, plus the obsolescence due to scientific improvements, may make new buildings a liability rather than an asset as an inflation hedge. These same conditions limit the ability of a corporation management in the buying of tools, machinery, and equipment for future use. Notable examples of this rapid change occurred during the last depression in the automobile industry. New plants that had been built and fully equipped with the most modern machinery as late as 1930 had to be junked and new machinery and plant equipment substituted when business recovery got under way in 1933 because the new inventions were so much more efficient that a plant keeping equipment that had been produced as far back as 1930 was a high-cost producer and could not compete on price reductions with the plants that had installed new and more efficient machinery. While there are some standard parts, tools, equipment, and even some buildings that will not become obsolete, the consequences of going too far in the purchase of buildings and machinery as a hedge against inflation may prove as costly as inflation. Careful consideration of every item purchased for this purpose is necessary.

What Happens to a Corporation When Stabilization and Deflation Come Following a Period of Inflation and Apparent Prosperity?

It is during this period of stabilization and deflation that corporation managers and equity investors learn about their real losses. Business declines sharply. Prices fall. Both investors and the public dehoard and sell their inflation hedges. Liquid capital is scarce. Debts are larger than ever before. Money is hard to get and a general period of unemployment, hard times, and confusion follows. This is the story after every period of inflation that history records. Corporations that had been doing a booming business suddenly find that their debts and deficits have overcome their liquid capital and bankruptcy is inevitable. Only the strong corporation with a management that has followed the rules to maintain the corporation in sound condition through this period of deflation and stabilization will be reasonably successful in maintaining something of value for the stockholders. The problem of surviving this period when the illusions of inflation profits are wiped out and maintaining a sound corporate structure for the stockholders for the recovery period to follow is the test of an able management.

The management that has done a good job will enter this period of deflation with hand-to-mouth operations, no debts or the minimum of debts depending on the nature of the business, a strong liquid capital position, no long term commitments, a plant in good condition, and prepared to adjust operations to the requirements of the market. It would not be possible to lay down rules to guide all corporations. These are general rules which are fundamentally sound for every corporation to follow during the period of inflation and deflation. But each corporation has its own peculiar problems and only after careful study of the problems of each corporation can policies be developed for the best interest of the owners of the corporation.

The CHRONICLE invites comments on the views expressed by Dr. Wright, in this article, or on any related phases of the subject under discussion. Comments should be addressed to Editor, Commercial and Financial Chronicle, 25 Spruce Street, New York.

Supreme Court Backs West Coast Curfew For U. S.-Born Japs

The U. S. Supreme Court on June 21 held constitutional military regulations imposing a West Coast curfew on all persons of Japanese ancestry and excluding them from specified areas. Chief Justice Stone delivered the opinion on a challenge of the regulations by two American-born persons by Japanese ancestry, who contended they were citizens of this country against whom the restructions could not constitutionally be applied.

In Associated Press Washington advices it was stated that "in a case of threatened danger requiring prompt action it is a choice between inflicting obviously needless hardship on the many or sitting passive and unresisting in the presence of the threat."

"We think," he added, "that constitutional government, in time of war, is not so powerless and does not compel so hard a choice if those charged with the responsibility of our national defense have reasonable ground for believing that the threat is real."

"The challenged orders," he said, "were defense measures for the avowed purpose of safeguarding the military area in question, at a time of threatened air raids and invasion by the Japanese forces, from the danger of sabotage, and espionage."

Those challenging the regulations were Gordon Kiyoshi Hirabayashi of Seattle and Minoru Yasui of Portland, Ore. Hirabayashi, a senior at the University of Washington at the time of his arrest, was sentenced to three months' imprisonment for violating the curfew regulation and for failing to report to an evacuation center. Yasui, a graduate of the University of Oregon, was sentenced to one year's imprisonment and fined $5,000 for violating the curfew regulation.

Advertising In The Post-War Era Must Combat State Socialism & Improve Industrial Leadership

(Continued from page 99)

self-improvement course at the same time that we set up as teachers of practical economics."

In his address, Mr. Wiley discussed what advertising could do to make the plans of the Committee for Economic Development "the greatest force for good living the world has ever known." Asserting that insofar as C.E.D. is a plan for solving post-war problems by increasing the sales of individual companies, advertising is ready, but Mr. Wiley questioned whether advertising's ability "to obtain a favorable political atmosphere, in which C.E.D. will be allowed to work out the destiny of American industry."

Mr. Wiley also had the following to say:

Where the top executive and his advertising manager and all businessmen are going to run into trouble is from the tide of state socialism that will be surging beneath this volume of production.

In this country, we love to experiment with new economic philosophies. But we differ from the other countries, in that we have so much more to lose if our experiments fail.

As a rich dilettante in the arts of government, we are apt to fall into a national frame of mind which believes we can wrap each citizen in economic cellophane, and at the same time maintain the dynamic national energy, which springs from individual initiative . . . and has been the very source of all our material progress.

I do not suggest that the advertising man, through further perfection of his art, work to stop social planning. Rather, I suggest that he accept the well being of his neighbor as an industrial responsibility and lay his plans accordingly.

If our capitalistic system is to be a real post-war model, as a result of C.E.D., then advertising can help create a body of opinion which will see to it that individual security plans are not applied in such a way as to rob the individual, who is ambitious and energetic, of his chance for the automatic rewards of free capitalism.

If we do not accept this challenge, the economic theorists will.

Now, it is often said that government social planners are impractical.

They may be impractical when it comes to figuring out how their plans will affect our economy, but they certainly are NOT impractical dreamers when it comes to salesmanship.

While we folks in advertising have concentrated upon slogans to sell everything from cosmetics to flow meters, they have devised other slogans that have shaken the foundations of our business structure.

If business wants to meet this kind of competition for the public mind, it can do so only by making sure that it has a proposition the public can believe in, and that it sells its point of view to the public.

In a democratic country, that is all you can expect to do.

The businessman must accept his responsibility for good living for Americans, and then make sure that every voter understands where his good living really comes from . . . and understands what excessive governmental costs will do to that good living. If these things are done, then socialistic planning can be modified to a point where it becomes a part of industrial growth, instead of an obstacle in the path of industry.

Yes, we have come to the period in our history when the fact that all good living depends upon the manufacture, distribution and sale of a constantly increasing volume of merchandise must be recognized by everybody. The C.E.D. is a shining example of the fact that industry does recognize its responsibility to provide good living for the common man.

But we have not yet come to the point where we thoroughly understand how to give the public a preview of this new, post-war model of capitalism and private enterprise as a social force. For instance:

How many people understand the term "capitalism"?

I doubt if one person in 10,000 would define it so that you would recognize it for what it really is in our way of life.

By the way, I'd like to offer a definition. Perhaps it is oversimplified. But, at least, if it were the accepted definition, it would help correct the impressions that have been growing since the days when Opper drew the fat man in the high silk hat and the diamond studded vest and labeled him "capital."

Definition:

"Capitalism" encourages people to save, because it promises to repay anything that is loaned, and to reward the loaner.

In recent years, millions of Americans have been taught to think of profit as a selfish, somewhat reprehensible gain which is taken directly from the mouth of babes and sucklings. These people do not realize that much maligned PROFIT is the direct source of ALL social gains. There's no other place for any social gain to come from.

I'd also like to offer a definition of profit, which if it were an accepted definition would help create a little better understanding of what business is all about.

'Definition'

"Profit" encourages people to think, because it gives an automatic reward to anyone who can do a job better.

Capitalism and profit get more work done in less time because they encourage and reward work. To talk of abolishing them is as ineffective as abolishing arithmetic. Their flaws are errors of operation, not of fact.

They can be made to create jobs for everybody. They can pay the war debt. They can accomplish any job within the imagination of man IF properly administered.

In the problems of the post-war world, we will need, as never before, the "take a chance" spirit which is the essence of capitalism. We will need the "I can do it better" spirit which can best be encouraged through allowing a profit.

These are the kind of simple facts about business, and how business operates that ought to be known throughout the length and breadth of our land. It is advertising's job to make them known.

However, I don't think industry is ever going to win a favorable environment through the kind of copy that is used to sell commodities, or the kind of copy that reports on performance in war work. Nor do I think the combative harangues that break into the advertising columns when strikes are impending will make friends for industry.

The way for business to create a favorable environment is to talk frankly about things like profit and capitalism and wage levels, management salaries and cash reserves. To talk particularly to its neighbors; those people located in the same cities in which an industry's plants and payrolls are located.

A plant may be a terrible eyesore in a town, and that's all any citizen will ever think about it, unless the men who operate that plant point out that it is a source of good living for every person in that town.

If the owners and operators of every plant will make their neighbors realize that they cannot live well unless the plant is successful, you'll find that those home-town people would have more influence in creating a favorable governmental environment for industrial progress than any lobby or pressure group.

So, the hardest peace job for advertising is to create a universal understanding that industry is the source of all good living.

Thus we have the advertising man approaching his peace-work with two jobs to do.

1. Sell a vastly increased quantity of merchandise.

2. Combat the sweep of state socialism by improving the performance of capitalism, and by selling the source of good living at the source of good government, the individual town and city.

But I'm not finished with the advertising man's peace-work. He'll have a third job.

That third job will be a continuation of something he's learned to do and do well during the war.

I'd like to give that new job a new name. I'd like to call it "productionizing."

Productionizing means using advertising methods to increase the efficiency of a company's own employees.

Industry has needed "productionizing" ever since plants grew too big for the boss to know all his employees, by name, and to show a personal interest in them.

Nothing very much was done about this need until the urgency of war production, the shortages of manpower, made it essential for someone to exercise leadership.

Someone was needed who could sell an idea to a lot of people in a hurry. Obviously the advertising manager was the man to do the job, and he's doing it.

I think the methods the advertising managers learned for handling the "productionizing" job during the war will be needed as much in peace-work as in war work.

Just as workers want to know where their products are going and how they are being used in war, they should know what happens to the products they make in peace, after they leave the shipping room.

In the future, I think the advertising manager is going to continue to explain the policies and accomplishments of management to employees through "productionizing."

Thus you have the advertising manager approaching his peacework with a triangular job. The base of this triangle is selling. One side of the triangle is "productionizing," or industrial leadership, and the triangle is completed by making understanding friends for industry through each advertising man doing his share of what we might call "Econo-political" advertising.

That triangular job (Selling Productionizing, Explaining the Practical Economics of Good Living) represents Advertising's Place in the Post-War Era.

To be ready to assume that broader responsibility in our economic life, advertising people will need these five fundamentals.

The first fundamental is a good memory.

If business is good and our memories are bad, we'll be riding for a fall.

If, in the rush of selling commodities after the war, we forget the fears for the post-war era that have brought us together today, and fail to keep the friendly understanding and support of the public, we will be inviting, by default, another wave of depression-born government interference.

We must remember, too, from the bitter lessons of the past, that sales charts cannot continue upward without continuous improvement in products and values.

The post-war world will defeat advertising, if we use advertising to bolster the sales of merchandise that is obsolete in design, function, or price.

The second fundamental is a good understanding of the economics of American life.

We must know where good living comes from, in order that we may sell the public on the part business plays in making better living possible.

Good living for all Americans is in direct ratio to America's ability to do more work in less time.

With that fundamental fact in our minds, we can show people why it is to their interest to see that all laws must be designed to encourage industrial progress.

The third fundamental for our peace-work is Good Team Work.

The problems we will face will be too great for the stratification of advertising people into retail, industrial and consumer-advertising states of mind.

After all, the most exquisite product that was ever packaged in platinum foil and advertised in 52 four-color heliotrope scented double spreads is just another INDUSTRIAL product until the very moment the consumer lays her coin on the counter.

Let's wear our gardenias after 5 o'clock and look on our jobs for what they are . . . the voice, and the personality of INDUSTRY.

The fourth fundamental is that advertising people, as a whole, must assume an executive function in business.

It is hard enough for the advertising tail to wag the dogma of the front office on matters of budget, without extending this problem in physics to matters of policy and procedure.

The executive status of advertising people in the after-war era, will not come as a lollypop handed out by a fond top executive. Rather, it must come in recognition of a profound job of thinking, implemented by definite plans, sold to management by men and women who know that they have the answers to the immense problems of salesmanship and human relations which lie before us.

The fifth fundamental is for all of us to learn to tell time—historical time.

There's a danger in the very term "Post-War," because it makes the job seem dim and distant. That upsets our timing. There is an urgent need for better understanding between business and public TODAY.

Millions of people hold ideas right now that will make post-war a hell on earth for private effort, unless we start the job of making BUSINESS competent to provide the better life that all men yearn for.

If we will listen to the heart beat of mankind today, and attune our thinking to it, we will be ready when the clock strikes "POST-WAR."

Small Business Seeks Contracts Exemption

A case for exemption of small business from renegotiation of war contracts was presented to a House Naval Affairs Sub-Committee on June 23 by representatives of the National Small Business Men's Association. The Sub-Committee, which is investigating the advisability of revising the present renegotiation law, was presented with a picture of Government agents and small business men spending hundreds of man-hours in renegotiating contracts to recapture in some cases a mere $25,000.

One phase of the picture was given by Monroe Shakespeare, President of a Kalamazoo, Mich., firm which manufactured fishing tackle in peacetime and now turns out airplane parts. An Army-Navy "E" insignia in his buttonhole, Mr. Shakespeare told how he had worked for months with renegotiators in an effort to decide whether he should return $250,000 or $225,000 to the Government. When an agreement was reached, he said, the Renegotiation Board with which he dealt was over-ruled by Washington and now he has been called upon to submit new figures on an entirely different basis, necessitating employment of a staff of auditors.

Others among the small business spokesmen, led by DeWitt Emery, President of the Association, brought out that small business is unable to make excessive profits because of the present tax laws; that no equitable standard has been established for computing what constitutes excess profits; that renegotiators will not consider taxes as an operating cost in renegotiations, and as a result many small business men are "renegotiated" into a loss; and that renegotiation activities of various war agencies were not coordinated.

Mr. Emery and several of his colleagues also warned the Sub-Committee that some provision must be made to allow accumulation of funds for post-war reconversion of industry if disaster is to be averted.

Mr. Emery's plan for a post-war reconversion reserve was given in these columns June 24, page 2389.

Pay On Porto Alegre 7½s

Ladenburg, Thalmann & Co., as special agent, is notifying holders of City of Porto Alegre (United States of Brazil) 40-year 7½% sinking fund gold bonds external loan of 1925, that funds have been deposited with them, sufficient to make a payment in lawful currency of the United States of America, of 16.25% of the face amount of the coupons due Jan. 1, 1941, amounting to $6.09⅜ for each $37.50 coupon and $3.04 11/16 for each $18.75 coupon. It is announced that pursuant to the provisions of the Presidential Decree of the United States of Brazil, such payment, if accepted by the holders of the bonds and coupons, must be accepted in full payment of such coupons and of the claims for interest represented thereby.

No present provision, the notice states, has been made for the coupons due Jan. 1, 1932 to Jan. 1, 1934 inclusive, but they should be retained for future adjustment.

California Business Up

Further expansion in business activity in California is reported by the Wells Fargo Bank & Union Trust Co. of San Francisco in its monthly publication "The Business Outlook," recently released. According to the bank's idex of California business, May activity reached a preliminary level of 251.6, as compared with 249.9 in April and 193.9 in May, 1942. The components of the index are industrial production, freight carloadings, bank debits, and department store sales.

"Our Reporter On Governments"

By S. F. PORTER

All right, we admit it. . . . There's no point in side-stepping the issue at this late date and the Treasury knows all about it anyway. . . . There was a lot of free riding on the last U.S. financing. . . . Maybe more than in any issue in recent years. . . . Subscriptions for the $100,000 blocks ran to $1,347,000,000 and unquestionably a large percentage represented buying by individuals in for a quick turn and quick profit. . . . Bank buying of the securities also terrifically heavy with a few big institutions reported subscribing for billion-dollar blocks all by themselves. . . . Really terrific. . . . And the premium—far above any forecast at the start—reflects exactly this situation. . . . The notes opened at 100.14, went up to 100.16 within 10 minutes after trading began last Wednesday, rose several 32nds above that unexpectedly high mark as trading progressed. . . . Terrific is the word. . . .

The figures give you the answer. . . . Subscriptions for the totals were $19,544,000,000. . . . Subscriptions over the $100,000-mark were allotted on a 7% basis. . . . Secretary Morgenthau had the pleasure of reporting the largest over-buying in history. . . . Newspapers front-paged the story, so sensational was it at this stage of the war. . . . And the reports of speculation spread throughout the country. . . .

But all right. . . . So free riding was tremendous and the Treasury did give the smart boys a chance to turn a pretty penny. . . . To wit: on a $100,000 block, the deposit requested was only 2% or $2,000, indicating that sellers at 100½ made $500 overnight with the only proviso being that their money was tied up for a week. . . .

But . . . and since the subject is out in the open anyway, we might as well dig down into this subject of free riding again and bring out the points rarely if ever mentioned in the casual news stories on regular market deals. . . .

THE TREASURY ASKED FOR IT

Here are some angles this observer would like to emphasize at the start:

(1) By waiting until the last minute to announce the terms of the new issue, Secretary Morgenthau built up a more-than-necessary interest in the financing and had every professional investor and trader on their toes, looking for the terms. . . . Had the deal been handled differently and had the terms been worked out more astutely, this would not have happened. . . .

(2) The report of a 1½ of 1947 was around for days, giving the "boys" a chance to do some side figuring on quick profits and giving them the psychological stimulus to get busy the moment the announcement was out. . . .

(3) Morgenthau asked for free riding on this one by issuing a relatively cheap 1½% note—which the banks wanted desperately, as had been mentioned in this column at length—and by placing few restrictions on subscriptions. . . .

(4) There is no reason to blame experts for acting in a manner that is legal, entirely proper and that is indicated by developments at the time. . . .

(5) What's wrong with making a little money on a new issue in the first place? . . .

(6) What harm did free riders do to this past issue? . . .

(7) Where's the logic in complaining that individuals aren't interested in the market, by giving them a chance for profit, and then by castigating them for taking it? . . .

(8) And how do the "conservatives" reconcile their criticism on the one hand of the Treasury for letting this one be "free played" and by their criticism on the other hand of the Treasury for "killing speculation?" . . .

(9) Let's make sense out of this thing once and for all or forget it. . . .

FREE RIDING—A DEFENSE

In all the years that free riders have been playing in Government bonds, corporates and stocks, they've never actually hurt a market. . . . In all the deals that free riders have been in and out in a flash, the only discernible results of their activities have been (1) color and excitement; (2) a rising, active market; (3) some sour grapes by the big boys who weren't able to pick up all the bonds they wanted for the simple reason that they wanted too many. . . .

This columnist has made a particularly close study of free riding. . . . In fact, back in 1938, the writer wrote an expose of the method in a national magazine, thereby invited thousands of little fellows to come in and play the Government market too and thereby created numerous enemies among the professionals and spoiled the market for free riding for some time. . . . So it is natural too feel capable of judging the situation as it stands today. . . .

The Treasury is eager to stimulate individual investors, trust funds and smaller corporations into purchasing new Government issues these days. . . . Secretary Morgenthau is anxiously developing new methods every month to broaden the market. . . . The reasons for this program are obvious and need no elaboration at this stage of the financing game. . . .

Of course free riders aren't investors—as the Treasury interprets the term. . . . Of course they're not the buyers Morgenthau really is after. . . . But they could become those buyers. . . . They could spread word of regular Government offerings from one end of the land to the other. . . . They could perform a highly important function—if they were held in check and "managed" correctly. . . .

A subscriber to a successful Government issue may decide to hold part of his block beyond payment date—and therefore place himself outside of the classification of free rider—if he decides this is the best investment he can have. . . . (Remember, we're talking now about smart, professional investors who judge securities on their merits in a market, not about patriots who buy war bonds because that's the only issue they are asked specifically to pick up). . . . While he sells some of his bonds at a profit, he does hold others—and he does pass along his securities to investors who would become final holders of the issues anyway. . . . There's nothing wrong in making a profit! . . . And the person who starts out from that premise is wrong from the start because he is ignoring psychology and human nature to an utterly ridiculous degree. . . .

Let the Treasury issue restrictions from the very beginning, making free riding impossible—or let it forget the subject entirely. . . .

Let investors go on and follow their own judgment and have as good a time as possible while financing the war or let them not even get a look-in on speculation of this type. . . .

In short, do it or don't. . . . But the kind of talk around Wall Street and Washington today does no one any good. . . . And this ends the defense until more discussion is essential. . . .

INSIDE THE MARKET

Lots of rumors around about change in issue terms on next regular market deal—aimed at speculators. . . .

Few, if any traders, anticipated a ½ point premium on the 1½s at the start. . . . It was a shock to the professionals more than to any other buyers. . . . Many dealers had looked for a chance to pick up some cheap 1½s at 100.8 to 9 early in the first day of trading but found themselves completely out on a limb when trading actually got under way. . . .

Next war loan drive not due until September 9, but plans for putting this one over on a scale beyond all precedents already are well along. . . . Goal may be $20,000,000,000, although that must include some bank buying. . . . Otherwise, it just couldn't be done. . . .

Refunding operation due August 1 and lots of talk around that a new money borrowing may be arranged then too. . . .

Treasury aides have been on a swing around the nation to straighten out war bond selling organization and to get managers of coming drive in a good, enthusiastic mood. . . . This is the "lull." . . . Nothing to be done now, because Treasury has come to conclusion that no group of people—or no nation—can be kept at high pitch all the time. . . .

Market "complacency" is worse than ever. . . . Maybe the summer will be chosen as the time for a little "shaking out." . . . Would be a fine idea. . . .

Willis Says Subsidies Delusion Not Solution

(Continued from page 98)

a more determined fight against inflation than we are.

"But we are opposed to subsidies because we know that they will not do the job. The use of them now is an evasion of the real question which this country must face sooner or later. That question is . . . have we the mental clarity and political courage to control farm prices and the wages paid to labor?

"We are further opposed to subsidies because we seriously object to losing more precious time experimenting with subsidies as a cure for inflation while we know in advance that it won't work.

"Well over a year ago this industry advised the OPA that its blanket price ceilings would not work. This advice was ignored and a whole year has been wasted trying to patch up the leaking boat of price control. As OPA plugged up one hole the boat burst another seam some place else. Precious time has been wasted experimenting with theories which practical minds knew in advance wouldn't work.

"Just as we warned that price ceilings at the retail level would fail without the support of adequate control over farm prices and labor, so we now warn that a program of food subsidies will result in more wasted time and incalculable damage.

"The 'hold-the-line' order calls for a roll back of prices to September 1942. To subsidize any such move would mean a minimum subsidy payment of at least three billion dollars. Any such pumping out of public funds would not check inflation but would add to the already top-heavy purchasing power of the public. On the one hand the government is trying to syphon off some of the 40 billion dollars in excess purchasing power now in the hands of the people. With the other they urge inflation control by adding not less than three billion dollars to the public debt and this same three billion dollars would go into current circulation and thus add to the huge margin of spending power over available commodities.

"There may be strong political reasons for not doing it, but we certainly cannot have any lasting effective price controls until raw materials, farm prices and labor's income are brought into balance. Some food price increases may have to be allowed and some wage rates may have to be increased to achieve balance but these are the exceptions and could be worked out. Whereas the adoption of a policy of subsidies without the cure of the fundamental evils can only result in chaos. The subsidy payments would increase progressively as time goes on and in this way they would contribute more and more to the unbalanced price structure.

"When the time comes when federal expenditures must be curtailed and subsidies discontinued, corresponding increases in food prices will be politically impossible and farm bankruptcy will inevitably result. To ask for subsidies now is an invitation to disaster.

"It has been stated that no plan has been put forward to check inflation except by the use of subsidies. Perhaps it is convenient to forget that the food industry has long advocated a plan which would go to the root of the evil—perhaps industry's plan is too simple and practical.

"The government's present policy is to fix prices at the retail level, whereas industry's recommendation is that the proper controls be placed on all of the items which make up the cost of the finished product.

"The cost of the finished product represents the total sum of the raw material price, plus labor, plus the cost of manufacture. These are necessary charges which you cannot escape. Then the product must be distributed. With no ceiling on raw material and labor, it is impossible to hold back the price of the finished product at the retail level for long.

"The cost of raw materials must be regulated and the rates paid to labor must be established before controls can be successfully imposed on the price of the finished product.

"With the basic cost elements restrained, price controls should then be fixed on the finished product at the processor level. There may have to be exceptions for some products such as meats, fresh fruits, vegetables, but on the whole, this fomula should apply. Ceilings should be flexible enough to encourage the maximum production and allow for the natural competitive positions of all the nation's producers.

"Wholesalers and retailers should be allowed percentage mark-ups commensurate with their cost of doing business.

"Only the basic food items required for the maintenance of health should be brought under price control, and all efforts of enforcement should be concentrated on these items. What happens to the price of luxury and semi-luxury commodities is relatively unimportant to the national economy. It should be the primary objective of both government and industry to achieve effective control of those 58 commodities which, as defined by the government, make up the cost of living.

"When these basic commodities are effectively regulated, a price control plan is a success. When these standard items get out of hand, then any price control program is a failure. It is important that we keep our thinking straight and our system of price control simple. Otherwise we are lost."

Misleading Financial Statistics Criticized By Luigi Criscuolo

Luigi Criscuolo, New York banker, calls attention, in the June 30th issue of his private newsletter, "The Rubicon," to the publication of misleading financial statistics by large daily newspapers.

His comment follows:

"Financial editors of large daily newspapers are daily purveying misleading financial statistics to their readers. Most of these newspapers devote almost a page to the daily stocks transactions on the New York Stock Exchange and among the data given is the dividend rate of each stock. Years ago the policy used to be to indicate the dividend rate of the previous year, and sometimes a footnote to indicate the amount paid so far in the current year. In view of the fact that the annual dividend rate does not necessarily establish a precedent, those statistics are no longer uniform. In some cases, they show the dividends paid last year, while in other cases, they show the dividends paid so far this year. The purpose of the dividend indication is to give a prospective purchaser an idea of what dividend the stock carries so that he can judge whether it will carry itself, or not, for the purpose of an investment. The fairest way to show this dividend rate is to indicate the aggregate payment in the previous year and the quarterly rate so far this year. This may take another column, but if the newspapers really want to be purveyors of truth rather than confuse the public, they ought to be able to find this space, in the column next to the stock and not in a footnote that is hard to read."

The Securities Salesman's Corner

It is perfectly amazing to anyone who is old-fashioned enough to believe that experience is still worth something in this world to see that the Chairman of the government bureau which regulates the entire private financial machinery of this country NEVER SPENT ONE SINGLE DAY IN HIS ENTIRE LIFETIME IN THE BUSINESS HE IS SUPPOSED TO REGULATE. Or that another young man, aged thirty-one, jumped directly from his law school into an executive position with an important government agency and after a short time was handed the leading role in drafting the recently revised rules for proxy solicitation promulgated by the SEC.

When important members of the executive personnel of such agencies as the SEC consist of men whose only experience prior to their governmental affiliation is based entirely upon a theoretical knowledge of the business they are supposed to regulate—possibly there is ANOTHER REASON besides certain defects in the SEC laws themselves as to why private financing of American industrial enterprise has diminished to such an alarming degree.

It is becoming increasingly clear that government agencies must be kept within the limitations of the powers delegated to them by the Congress and it is also self evident that if these agencies are to "regulate" without destroying the creative energies of the industries of this country; that THESE BROAD GRANTS OF DELEGATED POWER BE ADMINISTERED BY MEN WHOSE BACKGROUND IS SYMPATHETIC TO FREE ENTERPRISE AND OUR TRADITIONAL INSTITUTIONS RATHER THAN ANTAGONISTIC TO THEM.

After the war this nation must return to the pathways of peace. Jobs must be provided by industry, agriculture and trade—not by government. If private business is to provide these jobs then THERE MUST BE A REVIVAL OF PRIVATE FINANCING IN THIS COUNTRY. Otherwise government financing of free enterprise will eventually lead to complete governmental control over our lives. That's state socialism NO MATTER WHAT KIND OF A FANCY NAME YOU TAG ON TO IT.

If you are interested in the future of your business, and if you believe that true freedom can only exist in a nation where the financial machinery is in the hands of the people and not the bureaucrats nor the professional politicians, then you should write to your Congressman and tell him that you believe that before CONGRESS APPROPRIATES ANY MORE FUNDS FOR THE UPKEEP OF THE SEC THAT IT SHOULD AMEND THE SECURITIES ACTS SO AS TO AT LEAST MAKE IT MANDATORY THAT EXECUTIVE OFFICERS OF THE COMMISSION SHOULD HAVE A CERTAIN AMOUNT OF ACTUAL EXPERIENCE IN THE BUSINESS WHICH THEY ARE DELEGATED TO REGULATE. Such a provision is now being considered by the Congress regarding the administrative officials of the OPA. Surely the men selected to supervise the activities of the nation's financial industry should be no less well qualified than those who are supposed to fix the price of a bunch of bananas, or tell us the proper length of our shirt-tails.

If you want to read something that will open your eyes, procure the minutes of the recent hearings before the House Committee on Interstate and Foreign Commerce, wherein certain members of the SEC's staff were questioned as to their financial experience and CERTAIN OF THEIR PAST POLITICAL AFFILIATIONS. It is no wonder that practical men in the securities business who have known these facts for years have been reticent about establishing anything more than the most distant sort of relationship with the Commission. You can't build a strong and virile industry when the men who run that industry are actually in fear that every act or move they make will be used by some bureaucrat to harass and destroy them.

Can you imagine the difference in morale that would take place in the securities business if by chance a group of men who have been qualified by years of experience in finance and business, whose character and reputation for fair dealing was beyond a shadow of doubt, who believed in free enterprise to the core and who also would administer the Securities Act BOTH FORCIBLY AND FAIRLY, WERE PLACED IN CHARGE OF THE AFFAIRS OF THE SECURITIES COMMISSION? IF YOU WANT TO DO SOMETHING TO HELP YOUR BUSINESS AND THE FUTURE OF YOUR COUNTRY AS WELL — THEN WRITE YOUR CONGRESSMAN AND TELL HIM YOU WANT EXPERIENCED MEN TO SIT ON THE SECURITIES & EXCHANGE COMMISSION. WE'VE HAD TEN YEARS OF BOY SCOUTS AND THAT'S JUST ABOUT ENOUGH!

ANTI-WINDFALL JOKER

(Continued from page 98)

come brackets can actually expect.

Mr. X, a taxpayer, reported the following incomes:—

Year	Surtax Net Income	Normal Tax Net Income
1937	$4,000.00	$4,000.00
1938	3,500.00	3,500.00
1939	2,700.00	2,700.00
1940	5,000.00	5,000.00
1942	70,000.00	68,600.00
1943	75,000.00	73,600.00

In computing Mr. X's "anti-windfall" tax he must make three computations, as follows:—

I

A—1940 surtax net income (highest "normal" year 1937-1940)	$5,000.00
B—Add "anti-windfall" exemption	20,000.00
C—Amount on which fictitious tax is to be computed	$25,000.00
(1942 rates used since X's income lower in 1942 than 1943).	
D—Surtax on $25,000	$8,500.00
E—Normal tax on $25,000 (6%)	1,500.00
F—Total fictitious tax	$10,000.00

II

A—1942 surtax net income (1942 chosen because lower than 1943)	$70,000.00
B—1942 normal tax net income (after deducting maximum earned income credit of $1,400)	68,600.00
C—Surtax on $70,000	36,740.00
D—Normal tax on $68,600 (6%)	4,116.00
E—Total 1942 tax	$40,856.00

III

A—75% of 1942 tax of $40,856 (See IIE)	$30,542.00
B—Less tax on fictitious $25,000 income (See IF)	10,000.00
C—Equals "anti-windfall" tax to be paid by March 15, 1944 of	$20,642.00

In other words, in addition to paying higher taxes because of higher rates and increased income, Mr. X must also pay a tax based on the extent of the increase of his income over the so-called "normal" years.

In this particular example Mr. X must, on the basis of a combined surtax net income of $145,000 for the years 1942 and 1943 pay the following taxes (exclusive of Victory Tax):—

1943 surtax on $75,000 (based on 1942 rates)	$40,340.00
1943 normal tax on $73,600 (6%) (after deducting maximum earned income credit of $1,400)	4,416.00
25% of 1942 surtax and normal tax of $40,856 (See IIE)	10,214.00
(This 25% is based upon forgiveness of 75% of the lower of 1942 or 1943 taxes)	
"Anti-windfall" tax (See IIIC)	20,642.00
Total tax	$75,612.00

Thus Mr. X's actual forgiveness on his 1942 tax works out as follows:—

Straight forgiveness (75% of 1942 tax of $40,856 (See IIE)	$30,642
Less "anti-windfall" tax to be paid (See IIIC)	20,642
LEAVING A NET FORGIVENESS OF ONLY	$10,000

Therefore, far from being a 75% forgiveness, Mr. X's net forgiveness is less than 25% on his 1942 tax of $40,856. In recognition of the hardship that may result from the imposition of the "anti-windfall" tax the Collector of Internal Revenue has been authorized, in cases of such hardship and where proper security is given, to allow payment of this "anti-windfall" tax in four annual installments.

The parallel now becomes apparent between the individual "anti-windfall" tax and the corporate excess profits tax as originally conceived. The corporate excess profits tax fixes 1936-1939 as the normal years; the "anti-windfall" tax fixes the years 1937-1940. The corporate excess profits tax allows an exemption of $5,000; the "anti-windfall" tax exemption is $20,000. The obvious purpose of both is to tax away excess profits of the war years.

It is quite conceivable that the "anti-windfall" tax is only a "feeler". Perhaps, if too much opposition is not raised, this method of approach to higher income tax collections will be refined and materially extended, thus giving the Treasury the opportunity to recover taxes it claims to have lost because of partial forgiveness. Congress may, in place of the fixed $20,000 exemption, create graduated exemptions based upon net income for the years 1937-1940. In this way taxpayers in practically every bracket can be affected and there is little doubt that although basic surtax rates may remain static, the actual amount of revenue realized will be greatly enhanced. In fact, it would appear from recent articles in the daily newspapers, that the Treasury Department is already preparing a new revenue bill intended to impose an excess-profits tax on individual incomes which have increased during the war.

Indirectly, of course, this would also result in placing some sort of ceiling on all incomes, and in that way circumvent Congress' recent prohibition against the $25,000 annual net income ceiling.

Another significant result of such legislation may be to do away with the method of tax avoidance that has been used in the last few years of by-passing the corporation as a means of transacting business, and having the business continued by individual enterprises and partnerships. Corporate stockholders would do well, therefore, to consider impending developments in the field of individual income taxation before scrapping their corporations, subjecting themselves in the case of distribution of assets in kind to capital gain taxes on paper profits, plus the added responsibility of personal liability in the transaction of business as individuals or partnerships.

* Mr. Bauman is associated with the law firm of Tachna & Pinkussohn.

War Should Lead To Closer Relations Between U. S. And Canada, Scully Says

The peaceful relations between Canada and the United States "have been an example to the world for over a century," Hugh Day Scully, First Canadian Consul General for New York, declared on June 30 at a luncheon given in his honor by Thomas J. Watson, President of International Business Machines Corporation, at the Union Club in New York City.

"It is inconceivable," he said, "that our relations, that have been so friendly, so mutually productive of good citizenship, should be disturbed by this cataclysm through which the world is passing. On the contrary, it should lead to closer relations. Those will embrace many fields. We have worked together in war, the United Kingdom, United States and Canada. Now we are going to have new relationships. We are going to approach a renewal and extension, perhaps entirely new developments, in the trade relations, not only of Canada and the United States, but of Canada, the United States, Great Britain and the other Dominions in the Commonwealth." Continuing he said:

"Perhaps we have gone quite a distance already along that line, and we have got to take an enlarged view. That is where I think each of you, as individuals, and those who are associated with you, must think in all these relations on a much broader basis than we ever have before. We must think, what is the maximum that we can do, even at some pains, to attain the peaceful program of commerce and industry throughout the world."

Mr. Scully said that Canada is financing half of its war expenditures from current income by taxation, and the bonds representing the other half have been widely distributed among the population. The last war loan was subscribed by one in each five of Canada's population, with an average of over $400 per subscription.

In introducing the guest of honor, Mr. Watson declared that, in his opinion, "you will see during the next 25 years, greater development and progress in Canada, based on population, than will take place in any other country of the world. He added:

"Today, Canada has greater natural resources than the United States, with a population a little over 11,000,000 compared with our population of 135,000,000. With the same population that we had in 1826, Canada is turning out just nine times as much, in the way of manufactured products, as we did when we had that same population. Canada is the fourth largest producer of war materials among the United Nations. However, she has not used our lend-lease facilities at all during this war. Canada has been one of the heaviest purchasers from us and she has paid for everything that she has purchased.

"We are selling Canada considerably more of our products than we are purchasing from her. It is our duty to see what we can do about purchasing more from Canada. One way that I see is by assisting her in very possible way to increase her industry, because that always improves standards of living, brings more population into the country, creates a desire for more things and opens up opportunities for our country to sell things that we could produce to better advantage."

Mr. Watson referred to the agreement between Canada and the United States for an unarmed boundary as "the greatest international treaty that has ever existed. I look forward to the day when we will have that kind of treaty among all the countries of the world," he concluded.

Approximately 200 guests, representing business, finance, education, public affairs and the armed forces, attended.

Other speakers at the luncheon were Harold B. Butler, British Minister at Washington, and Dr. John B. Condliffe, author of "Agenda for a Post-War World," Professor of Economics at the University of California, and now associated with the work of the Carnegie Endowment for International Peace.

US-Cuban Gold Pact Extended Two Years

Secretary of the Treasury Morgenthau and the Charge d'Affaires of Cuba, Dr. Jose T. Baron, on July 1 extended for two years beyound June 30, 1943, the agreement under which the Government of the United States undertakes to sell gold to the Government of the Republic of Cuba. The agreement provides that payment may be made within 120 days after delivery of the gold, provided that the unpaid-for amount of gold shall not at any time exceed $5,000,000. The Treasury Department's announcement says:

"The agreement which was extended today evidences the close cooperation that exists between the Treasuries of the Republic of Cuba and the United States, and will enable the Cuban Treasury to carry out operations designed to stabilize the Cuban peso-United States dollar rate of exchange."

"The agreement has been in operation since July, 1942, and has proved to be very effective."

FDIC Reports Earnings Of Insured Banks Up

Current operating earnings of insured commercial banks increased during 1942 to the highest figure on record, but net profits after taxes showed a slight decline, Leo T. Crowley, Chairman of the Federal Deposit Insurance Corporation, announced on June 24.

The growth of current operating earnings from $1,730,000,000 in 1941 to $1,791,000,000 in 1942 more than offset increased expenses and taxes, Mr. Crowley said, and net current operating earnings were larger than ever before, even after income taxes.

Net profits after taxes, but before dividends, were $441,000,000, the FDIC Chairman reported, representing a return of 6.3% on total capital funds. This is higher than in any other years except 1936 and 1941.

In Washington advices, June 24, to the New York "Times," the following was also reported.

Interest and dividends received on securities increased by $101,000,000, due almost entirely to interest on larger holdings of obligations of the United States Government. Interest and discount received on loans declined by $31,000,000, reflecting chiefly the decrease in loan volume which occurred during the year. The average rate of income received on loans declined to a new low of 4.1%.

Total current operating expenses, which in the figures released for National and State bank members of the Federal Reserve System include income taxes, increased by $32,000,000, reflecting increases in salaries, wages and fees of $37,000,000, and in taxes (including income taxes of Federal Reserve member banks) of $19,000,000, partly offset by decreases of $15,000,000 in interest on time and savings deposits and of $9,000,000 in other current operating expenses.

Interest paid on time and savings deposits continued the decline that has occurred in every year since 1934. The average rate of interest paid was 1.1% against 1.2% in 1941 and 2.4% in 1934.

Profits on securities sold decreased by $79,000,000 during the year, or by 55%. At $66,000,000, profits on securities sold were lower than for any years since 1936, when separate figures were first available.

Net charge-offs on assets (losses less recoveries on assets, exclusive of profits on securities sold) declined by $40,000,000 during the year to a new low of $114,000,000. Recoveries on assets, chiefly on securities, declined by $23,000,000, while losses on assets declined by $63,000,000.

Common and preferred cash dividends and interest paid on capital amounted to $228,000,000 in 1942, as compared with $238,000,000 in 1941. The rate of dividends on capital stock, notes and debentures declined slightly to 8.0% in 1942.

Amounts available for addition to total capital accounts (net profits after dividends) were $213,000,000, about the same as in 1941, and represented 3% of total capital accounts.

Free Enterprise Secret of Achievement of American System

First National Bank of Boston Warns Against Paternalistic Spirit of Government

"Freedom of enterprise" is fittingly described by the First National Bank of Boston as "the keynote of all freedoms as it provides opportunity for the individual to develop according to his capacity and to receive rewards, under competitive conditions in accordance with his contribution to society." Further declaring that "it is the secret of the unmatched achievement of the American system" the bank observes that "without the freedom of enterprise, the Atlantic Charter Four Freedoms, as well as all others, would disappear virtually overnight. For the only alternative to individual enterprise is collectiivsm, the very nature of which destroys all freedoms in its demand that the people give individual allegiance to an all-powerful state."

The American system is cited by the bank as "a triumph of individual initiative and enterprise," which "has provided economic freedom and a democratic form of Government." Viewing as "the greatest menace to an advancing civilization" the "paternalistic spirit of the Government" which, it notes, "has been greatly aggravated during the past decade," the bank refers to the multitudinous bureaus and commissions engaged, even in peacetime, "in the regulation of industry, agriculture, labor, commerce and finance, as well as a steady invasion into the field of private enterprise," and says:

"We have reached the stage where the individual is encouraged to pack up his troubles and leave them at the doorstep of Uncle Sam. Such a policy not only has a demoralizing effect upon the people, but places a terrific strain on our economy. . . .

"When a Government plays the part of Santa Claus to its people the impression is given that the money comes from some mysterious source, like manna from Heaven. But the hard facts are that a Government creates no wealth or income, but distributes money that it has collected from the taxpayers or from the sale of its securities, which in turn constitutes a mortgage on future income. Paradoxical as it may seem, the more a Government borrows from the people, the greater control it has over their destiny."

"With Government aid, goes Government control," says the bank, "and unless checked there grows up a Frankenstein bureaucracy that saps the vitality of the country." It states that "the danger is not that the American people would deliberately choose the road of regimentation, but rather that a large part of our population may be deluded by believing that the Government can guarantee them security and an abundant life without working for it. The resultant burden of such an undertaking would be so crushing that private enterprise would break down and the Government would take over control."

"In our eagerness for reform and for security," the bank cautions, "let us make sure we do not pull the temple down on our heads and surrender the principles which required centuries of struggle to attain, and are the only ones that can provide us with an abundant life and liberty."

The bank's comments on "The Keystone of Freedom" were contained in its New England Letter, dated June 30, and were set out in full as follows:

"The American system is a triumph of individual initiative and private enterprise. It has provided economic freedom and a democratic form of Government. As a matter of fact, these two have gone hand in hand and will rise or fall together.

"America became known as the land of opportunity, as a refuge for the downtrodden of the old world. Here was established the first great experiment in individual enterprise, under which each person within bounds of the social order is the master of his destiny and has the opportunity to rise to the highest rung of the ladder by sheer force of ability, character, and vision.

"This is well epitomized by our forefathers, who by overcoming starvation and the perils of the wilderness developed the capacity that enabled them to deal with stern reality, and through their energy, daring, and vision laid the foundation for the American system. That this principle continues to operate is shown by the fact that practically all of the heads of large business enterprises in this country worked their way to the top.

"Freedom of enterprise is the keystone of all freedoms as it provides opportunity for the individual to develop according to his capacity and to receive rewards, under competitive conditions, in accordance with his contribution to society. The release of individual energy and initiative under such a constructive stimulus is the key to progress. It is the secret of the unmatched achievement of the American system. Free enterprise provides opportunity for the fullest expression of the human spirit and individuality, when accompanied by a sense of duty and personal responsibility to the social order. Without the freedom of enterprise, the Atlantic Charter Four Freedoms, as well as the others, would disappear virtually overnight. For the only alternative to individual enetrprise is collectivism, the very nature of which destroys all freedoms in its demand that the people give undivided allegiance to an all-powerful State.

"It is highly significant that practically all modern progress has been initiated under private enterprise in liberal democracies. The greatest menace to an advancing civilization is the paternalistic spirit of the Government, which has been greatly aggravated during the past decade. The advance of society and the growing complexity of our economic system have naturally been accompanied by a growth in Government services, such as schools, roads, health, and protection of life and property. But beyond these basic services there have prevailed, even in peacetime, multitudinous bureaus and comissions engaged in the regulation of industry, agricultural labor, commerce, and finance, as well as a steady invasion into the field of private enterprise. We have reached the stage where the individual is encouraged to pack up his troubles and leave them at the doorstep of Uuncle Sam. Such a policy not only has a demoralizing effect upon the people, but places a terrific strain on our economy.

"For the past decade or so we have been granting bounties and subsidies with a lavish hand. We have been virtually heedless of the ways and means whereby the bills will be met. It seems hypocritical to be so solicitous of the welfare of our citizens, particularly the young, and then proceed to impose staggering burdens upon them as well as upon posterity. In contrast, past generations had a sense of social responsibility and not only paid their way, but set aside a large part of their resources and productive effort to fortify the future. In this war emergency there is no escape from the mounting debt, but in our post-war commitments it would be folly to run up bills far beyond our economic capacity.

"When a government plays the part of Santa Claus to its people, the impression is given that the money comes from some mysterious source, like manna from Heaven. But the hard facts are that a government creates no wealth or income, but distributes money that it has collected from the taxpayers or from the sale of its securities which, in turn, constitutes a mortgage on future income. Paradoxical as it may seem, the more a government borrows from the people, the greater control it has over their destiny.

"Every special favor asked of the Government for protection against the vicissitudes of life—whether it be by labor, farmers, businessmen, bankers, or professional groups—imperils the liberty of all the people. With Government aid goes Government control, and unless checked there grows up a Frankenstein bureaucracy that saps the vitality of the country. So while bureaucracy marches forward under the banner of liberty and democracy, it leads the people toward complete regimentation.

"Before taking the road to serfdom we should fully realize what the consequences are of selling our birthright for a mess of pottage. Collectivism or state socialism follows in general a prescribed pattern. The State becomes supreme. To maintain its authority it must control all avenues of thought and expression, including the schools, the church, the press, and the radio—for the people, must be imbued with the unity of ideals and action. There can be no opposition or dissension as this would weaken the power of the State. Hence the Constitution and the Bill of Rights, which guarantee individuals protection against Government abuses, would be scrapped and instead the individual would be compelled to give absolute obedience and allegiance to the State. For a political crime a person could be imprisoned on suspicion, kept in jail or in a concentration camp without a hearing, tried without counsel and sentenced without right of appeal. The individual would be submerged while the hope, faith, energy, and ambition of the people would be symbolized in the 'leader,' who would be the spiritual and political head. His decrees would be enforced by a huge bureaucracy and secret police. The State would have complete charge of the lives of the people, while the children would be the wards of the Government. There would be a compulsory labor front, with no collective bargaining and no free labor unions. Labor questions would be settled by the henchmen of the dictator with neither the employee nor the employer having any choice in the settlement. The teachers would be under oath to teach the new order 'ideology,' while all books that referred to freedom would be burned, and all curricula would be in keeping with the objectives of the State The church would be under attack, religion ridiculed, and the cross replaced by the State emblem. The home, which is one's castle under Anglo-Saxon law, could be invaded under the slightest pretext. Newspapers and magazines would be under the strict control of the authorities, and would largely contain reports about the State and its officials.

"In return for the surrender of one's liberty, the State would provide employment and subsistence of a sort. But a person would be forced to accept the job offered, and there would not be the opportunity for advancement that has prevailed in this country, nor for one's children to improve their lot. The whole population would be reduced to a common level and life would become a monotonous drudgery. The people would live on their knees in darkness and fear. There would be no tomorrow for the chains would have been forged and the power of resistance crushed. This, then, is the price that is paid when freemen barter their independence for Government bread.

"The danger is not that the American people would deliberately choose the road of regimentation, but rather that a large part of our population may be deluded by the demagogues into believing that the Government can guarantee them security and an abundant life without working for it. The resultant burden of such an undertaking would be so crushing that private enterprise would break down and the Government would take over control.

"Any change in the essentials of our economic system is a backward step toward communism and state socialism. But it is inevitable that when a country has swung to the extreme of state socialism, there is only one direction in which it can go in order to survive, and that is back toward the principles underlying private enterprise. Russia, which embodied all the principles of communism with the establishment of a classless society with its doctrine of provididng for each according to his needs, found this to be true. In her desperation, to stave off wholesale starvation before the war, Russia was compelled to revamp her system and to adopt the method of 'differential rewards,' with the consequence that in the pre-war period there was much more of a spread in wages between the skilled and unskilled workers than in this country. The 'intelligentsia'—the scientifically trained and professional workers—became a privileged class who received better pay, wore better clothes, and had more comforts than the others. So in little more than two decades, after having gone the whole distance of communism, Russia was again headed toward the principles of private enterprise.

"So in our eagerness for reform and for security, let us make sure we do not pull the temple down on our heads and surrender the principles which required centuries of struggle to attain, and are the only ones that can provide us with an abundant life and individual liberty.

"As we face grave and challenging problems, it is encouraging to note that the greatest progress in the world's history—including the foundation of Christianity, the Crusades, the Renaissance, the Discovery of the New World, the Industrial Revolution, and the Golden Age of Literature — occurred in critical times. Daring and resourceful men rose to the occasion and lifted the spirit of the people. They followed their destiny without reckoning the cost, and paved the way for the freedoms we enjoy today.

"In the forefront of our objectives for the post-war period must be freedom of production, for this is the source of jobs for the workers, income for industry and revenue for the Government. Our resources and facilities should be put to the fullest use, and men of enterprise and vision should be given the incentive to embark upon risk-taking ventures so that we may build a dynamic economy, with its accompaniment of economic and personal freedom.

"The lamp of liberty is burning low today as the clock of social progress is turned backward by hundreds of years. The eyes of the world are turned to us for leadership. In dedicating our lives and treasure to mankind for the Four Freedoms of the Atlantic Charter, let us be sure that we preserve our liberties at home, for it would be a futile gesture to carry the torch unless our liberties are secure within our own borders."

League Of Nations Post-War Program For World Trade And Stable Economy In All Nations

In Princeton, N. J., where Woodrow Wilson, the father of the League of Nations, lived before he became President, the same League of Nations is making a plan for another new world, according to Associated Press accounts from Princeton July 1, published in the New York "Times," which further reported as follows regarding the plans:

"There are seven points in this plan for post-war reconstruction:

"(1) Fullest possible use must be made of human and material resources, of individual skill and enterprise, of scientific inventions to maintain in all countries a stable economy and rising living standard.

"(2) No man or woman able and willing to work must be unemployed for longer than is needed to transfer from one occupation to another or to learn a new skill.

"(3) There must be food, clothing, housing and medical care to meet the needs of all classes of the population.

"(4) Individual risk from interruption or reduction of earning power must be distributed by society.

"(5) The liberty of the individual to choose his own occupation must be respected and promoted by equal educational opportunities.

"(6) Trade obstructions are to be progressively removed so that every country has access to raw materials and manufactured goods.

"(7) Modern methods of production must be made available to all peoples through international measures of reconstruction and development and removal of trade barriers.

"The committee that drafted the report, "the transition from war to peace economy," has been studying the means of preventing depressions since January, 1938. Representing the Financial, Economic and International Public Works Committees of the International Labor Organization, the group is called the Delegation on Economic Depressions.

"Under the plan, raw material and heavy goods priorities, food, clothes and fuel rationing would continue in all countries after cessation of hostilities, as would high personal taxes, price ceilings and compulsory savings plans. These controls would be gradually tapered off as production completed the transition from war to peace-time manufacture.

"Only by thus keeping the lid on inflation, the authors insist, can the cycle of boom, inflation and subsequent unemployment which followed the last war be avoided.

"Almost all the ills which beset the world between 1918 and 1939 were due to the first two years after the armistice," said Dr. Alexander Loveday, director of the League Economic and Financial Committees since 1919, in explaining the background of the plan.

"The Allies gave food as charity to the wartorn nations of Europe and let business try to do the rest. Private business based on profit could not undertake reconstruction where profit could not be made. Consequently there was inflation, from which the world never recovered."

"Reconstruction of war-depleted countries would be achieved, according to the plan, by a revolutionary project for internationally equalized currencies and by State loans to be repaid largely through trade. Diversity in exchange values of the various national currencies would be wiped out, so war-impoverished countries could buy raw materials and finished goods in a market where everybody's money would be of equal value.

What international machinery should operate this economy for a depressionless world, the plan does not say. Dr. Loveday said, "It has been worked out with the ideals of the United Nations in mind."

Post-War Fund Needs Stressed By Chairman Girdler Of Republic Steel Corp.

Needed revision in tax and renegotiation legislation which will enable business to accumulate sufficient surplus to see it through the trying post-war period, is pointed out by Chairman Tom M. Girdler and President R. J. Wysor in a letter to stockholders of Republic Steel Corp., July 1.

In this connection the letter stated in part:

"Peace, as well as war, requires enormous outlays of capital.

"One important measure of the ability of American business to turn sharply and face the problems of peace will depend on its ability to finance the demands which peace will bring.

"Plants will have to be reconverted. New equipment and machinery will have to be purchased. New products will have to be taken from the laboratories and placed on the production line. In many cases new markets will have to be investigated.

"To this end, it is essential that orderly, swift procedure be developed by government which will enable business to quickly make this about-face at the proper time.

"Unprecedented but necessary taxation, together with renegotiation and other limitation on legitimate profits have prevented business from accumulating essential reserves. The speed with which government contracts can be terminated and business reimbursed for work done on those contracts will be another vital factor. The constructive solution of these problems will aid mightily in post-war reconstruction. Without sufficient working capital, the reconversion of business from wartime to a peacetime status may be dangerously delayed.

"It may, in fact, be difficult for many corporations to continue dividends, to meet regular commitments for debt retirement, to finance construction of facilities for new products or to maintain normal working forces. Such a situation would be chaotic to stockholders and employees alike and disastrous to the economy of the company."

The letter also pointed out that with 20% of Republic's 70,000 employees now in the military service, the company has broken all traditions and is employing nearly 7,000 women, who are doing men's work in its steel and manufacturing plants. These women are running cranes; working at blast furnaces, open hearth furnaces and in sintering plants; operating machine tools; doing track maintenance work; working in metallurgical laboratories and shipping departments.

Since Jan. 1, 1941, corporation's steel plants have operated at the average monthly rate of 100% of capacity, according to a letter. In addition, each month's production during that period has exceeded the production of the corresponding month in the previous year.

All NY Savings Banks Get FDIC Coverage

Admission of 121 mutual savings banks of New York State to membership in the Federal Deposit Insurance Corporation became effective on July 1, it was announced in a joint statement by Leo T. Crowley, FDIC Chairman, and Elliott V. Bell, State Superintendent of Banks.

At the same time, the only commercial bank of deposit in New York State whose deposits had not been insured previously joined the FDIC. Thus every bank in New York State that accepts deposits is now protected by Federal deposit insurance. Including the savings banks which have about 6,000,000 depositors and customers' balances of $5,750,000,000, more than 13,500,000 deposit accounts, totaling about $31,000,000,000 of deposits, are now insured by FDIC in New York State.

The joint statement further disclosed:

"Hitherto, 11 mutual savings banks have been members of the Federal insurance system, while others have been members of the Mutual Savings Banks Fund, an insurance owned by the New York savings banks.

"In connection with the admission of the New York Savings banks to the FDIC, arrangements are being made for the mutual fund to make contributions to the surplus of some of the savings banks.

"For the time being the mutual fund will be maintained, but no further assessments are to be paid into it, and its insurance liability toward its members will be terminated in view of the FDIC coverage. Ultimate disposition of the fund will be decided by the banks which are its members."

The program under which the New York savings banks have become members of the FDIC calls for the establishment by Mr. Crowley of an advisory council on savings banks. Mr. Crowley announces that he has asked the following persons to serve: Myron S. Short, President of the Savings Association of the State of New York; Philip A. Benson, savings bank member of the New York State Banking Board; Henry C. Sherman, President of the Society for Savings, Cleveland, Ohio; Mark Willcox, President, Beneficial Savings Fund Society, Philadelphia, Pa.; Henry Bruere, President of the Bowery Savings Bank, New York; Walter H. Bennett, Chairman of the Emigrant Industrial Savings Bank, New York; Joseph A. Broderick, President of the East River Savings Bank, New York, and Mr. Bell.

Raymond T. Cahill, formerly First Assistant Commissioner of Federal Housing Administration, has joined FDIC and will serve as Secretary to the Advisory Council.

The one commercial bank which was not a member of the Federal insurance system was the Mechanics and Farmers Bank of Albany.

Plans for admitting the savings banks to the FDIC were reported in our issue of May 20, page 1879.

Carson In OPA Rent Post

Price Administrator Prentiss M. Brown announced on June 30 the appointment of Ivan D. Carson as Acting OPA Deputy Administrator for Rents. Mr. Carson was named to succeed Paul A. Porter, who resigned to accept the post of Associate Administrator of the War Food Administration.

Mr. Carson, as director of operations of the OPA rent department since September, 1942, has assisted Mr. Porter in planning and developing the Federal rent program throughout the country.

Advises Keeping Of Saving Accounts In Addition To Buying War Bonds

While urging everyone to buy all the war bonds he can out of pay increases enjoyed through full wartime employment and overtime, the National Thrift Committee on June 28 told people with savings accounts that they make no contribution to the war effort when they withdraw accumulated savings to buy war bonds. Since savings institutions already have these funds largely invested in government securities, and must sell bonds when bulk savings are withdrawn, the net result is merely a change of bond holders. "Indeed," said J. Robert Stout, Chairman of the Committee, "people should not only keep their savings accounts, but should make every effort to increase them in addition to the war bonds they buy." Mr. Stout added:

"The old idea of savings has not been outmoded by the fact that everyone must buy war bonds; the individual is still under the necessity of providing for his normal needs, which include savings for emergencies. The Government knows that almost everyone regularly saves something out of income in normal times. It knows that with war wages and the scarcity of things to buy, they can continue to do that and still have a large surplus for war bonds. In fact, the Government relies upon this steady stream of savings into savings institutions for much of its borrowing."

Mr. Stout said that a survey the Committee has made shows that practically all savings currently being received by savings institutions are being used by those institutions to purchase government bonds. "So that," he said, "whether the individual buys war bonds, or places his savings in a savings institution that is investing in Government bonds, the same patriotic end is accomplished. The only difference is that savings continue to be available in an emergency, or to meet large anticipated expenditures, whereas if the individual puts all his surplus in war bonds he may, if he needs money, have to cash his bonds before they mature." Continuing Mr. Stout said:

"War bonds, are a long-term investment. They store up excess purchasing power until industry can again offer plenty of consumer goods at normal prices. For that reason workers in war industries, who may reasonably expect temporary unemployment after the war, should save toward living expenses in the post-war readjustment period. Unemployment benefits are not large, and if everyone uses war bonds for living expenses, no one will have money for buying: buying the cars, the radios, the electric equipment and other things that not only represent our high standard of living, but pay the wages that maintain it. Post-war employment and a full pay envelope depend upon what the people do with their war-earned surplus now. They should of course buy war bonds as their contribution to the war and to post-war recovery; but they should continue their regular savings at the same time."

Canadian Securities

By BRUCE WILLIAMS

The exigencies of war and the abundance of Canadian national resources have led to two vast new projects north of the border. One arose from the necessity of quickly stepping up aluminum supplies for the United Nations.

Near Arvida, Quebec, site of the largest aluminum plant in the world, the Shipshaw development, a great new source of hydro-electric power has been created on the Saguenay River. Its constant delivery of power, when completed next Fall, will be greater than that of Boulder Dam and will be second only to Grand Coulee.

The other development is found in Northwestern Ontario at Steep Rock Lake, where the Seine River is to be diverted and a lake drained in order to uncover a vast bed of one of the richest iron ore deposits on this continent. With the drain on our iron resources continuing at an unprecedented pace, it has been considered necessary to look to other potential sources of ready supply. Consequently the development at Steep Rock has been facilitated by a $5,000,000 R. F. C. loan.

Thus it is demonstrated once more that there is scope in Canada for tremendous expansion which can be assisted and accelerated by our own capital resources. It can only prove to be of ultimate benefit to us to have on our northern border a strong and prosperous neighbor.

In the securities market this week one of the most interesting items of news was the announcement by the Canadian Pacific Railway Company of the call for redemption next September 1 of the outstanding 4½% collateral trust bonds due in 1946. It was also stated that the major portion of the funds necessary to meet the redemption had been provided by a private issue in this country of $18,000,000 of 3% equipment trust certificates which mature serially every six months for 10 years.

This announcement should stimulate interest in the outstanding C. P. R. issues, and the perpetual 4's yielding 4.80% and the 5's of 1954 with a return of 4.50% appear attractive investments, especially when it is appreciated that the Canadian Pacific Railway Company is not just another railroad but an integral part of the Canadian economy.

Direct Dominions have almost entirely recovered their recent losses and the 3s of 1953 regained their previous high level of 104¼. Canadian Nationals continued in steady demand and the 5s of October, 1969, found ready buyers at 115½. As anticipated, now that the offering of bonds from Canada is no longer aggressive, the exaggerated differential between direct Dominions and the guaranteed issues is steadily diminishing.

Provincial and municipal bonds were not in such ready supply as previously and prices further advanced on a smaller turnover. Long-term Manitobas were bid through a 4% yield basis, and British Columbias registered new high levels with the longer maturities quoted at a yield of 3.65%. Nova Scotias were more active than usual and also reached new high levels; the 5s of 1959 and the 4½s of 1961 changed hands at 115½ and 111½, respectively.

As perviously pointed out, long-term New Brunswicks, which still return nearly 4¼%, appear definitely undervalued in comparison with similar Nova Scotia issues. Basically, there would appear to be little to choose between the obligations of these two maritime provinces, and it would not be surprising to see the present wide differential rapidly diminish. As expected, the ample supply of Saskatchewans from Canada has prevented further immediate rise in these bonds, but absorption of offerings kept prices steady. Buying continued in internal Dominions to such an extent that the free exchange rate touched 9 9/16% discount.

It is conceivable that should the Foreign Exchange Control Board be called upon to supply exchange at the official rate in any considerable volume, the question of the exchange level of the Canadian dollar will once more have to be given serious attention. The authorities would have to consider the desirability of selling exchange at 9.09 discount, and then perhaps at a later date having to repurchase the same dollars at par.

Adv. Federation Names Barton And Dawson

At the annual business meeting of the Advertising Federation of America, held in New York City on June 29, Bruce Barton, President of Batten, Barton, Durstine & Osborn, Inc., New York, was elected Chairman of the Board of the Federation, and Joe M. Dawson, President of Tracy-Locke-Dawson, Inc., New York, was elected President.

Clara H. Zillessen, Advertising Manager of the Philadelphia Electric Co., was chosen Secretary, and Robert S. Peare, Manager of the Publicity Department of the General Electric Co., Schenectady, N. Y., was elected Treasurer. Charles E. Murphy was re-elected General Counsel.

Three new Directors were elected as follows: Mr. Barton; Gardner Cowles, Jr., Des Moines, Iowa, whose interests include newspaper and magazine publishing as well as radio, and Lou R. Maxon, Chairman, Maxon, Inc., Detroit and New York, and Deputy Administrator, Office of Price Administration, Washington.

* * *

The following Directors were re-elected: Henry H. Caswell, Treasurer and General Manager, W. F. Young, Inc., Springfield, Mass.; Herbert E. Fisk, Executive Vice-President, Outdoor Advertising Association of America, Inc., Chicago; Merrill C. Meigs, Vice-President, Hearst Corporation, Chicago; Henry Obermeyer, Assistant Vice-President, Consolidated Edison Co. of New York, Inc.; Allan T. Preyer, Executive Vice-President, Vick Chemical Co. of New York; William C. Savage, Advertising Manager, Cincinnati "Post"; Dorothy Shaver, Vice-President, Lord & Taylor, New York.

No Circulars For Navy Personnel Overseas

Albert Goldman, Postmaster of New York, announces that the Navy Department has advised that "advertising and circular matter, mailed at the third-class rate of postage, addressed to the personnel of the Navy, Marine Corps, and Coast Guard, should not be presented for mailing to Navy personnel overseas as such matter would not be dispatched to addressees on and after July 1, this action being taken in the interest of space conservation and in view of the limited value of the circulars to the addressees." Mr. Goldman's announcement adds: "This includes advertising and circular matter addressed to Navy, Marine Corps, or Coast Guard vessels, installations, or stations in care of the Fleet Post Office, at New York, N. Y., or San Francisco, Calif., and to such installations or stations in care of Postmaster, Seattle, Wash., or the Fleet Post Office at Seattle."

Paul Says Public Could Bear $30 Billion Of Personal Taxes—Predicts Higher Income Taxes

Randolph E. Paul, General Counsel of the Treasury Department, said on June 30 that Americans can bear "at least" $30,000,000,000 in personal taxes in 1944 and recommended an increase in personal income taxes and a decrease in exemptions to meet the Nation's revenue needs.

Mr. Paul told the Federal Bar Association of New York, New Jersey and Connecticut at a meeting in Newark, N. J., that "whatever the cost in taxes, it will be a bargain if we prevent inflation," "but warned that "by trying to wish the inflation problem out of existence, we have already wished ourselves into a 25% inflation since the beginning of 1941."

The following regarding his remarks was reported in the Newark "Evening News" of July 1:

Mr. Paul said that for the coming year Americans will have $15 of spending power, after taxes are taken out, for every $10 worth of goods available. In Great Britain, he explained, the ratio is about $12 for $10 worth of goods. The prospective American ratio, which allows only for spending power from current income and ignores past cash accumulations, Paul contended, "is clearly too high for safety."

Discussing arguments for taxes on retail sales, corporation profits and estates and gifts, Paul said these methods of tax collection already were being used to the point "which would trim off all the fat of excess spending power without cutting into the lean of justifiable expenditures and necessary spending.

"Some skeptics question whether taxpayers can bear an increase in personal income tax payments to the Federal Government from the $4,000,000,000 level of the calendar year 1942 to the enormously larger sums which are necessary to hold the anti-inflation line in the calendar year 1944.

"In 1942 personal income after payment of all personal taxes amounted to $109,000,000,000, out of which citizens spent $82,000,000,000 and saved $27,000,000,000. In 1944 income before taxes will clearly exceed $150,000,000,000, and the amount consumers can spend without pushing up prices will be very little if at all above 1942 expenditures.

"The American people thus can bear at least $30,000,000,000 of personal taxes, an increase of $26,000,000,000 over 1942. As income tax rates rise, we should look for ways of protecting taxpayers whose working and living conditions subject them to special burdens.

"Demands for the war effort for supplies and equipment must cut into the civilian supply, and inadequate taxation doesn't offer citizens the privilege of consuming more goods than are in existence; it merely gives them the privilege of joining in a mad scramble for the goods that do exist. By trying to wish the inflation problem out of existence, we have already wished ourselves into a 25% inflation since the beginning of 1941."

Marshall Urges Banks To Plan For Employees' Security Through Pension And Retirement Funds

The prestige that goes with "working in a bank" which formerly made bank employees content with modest salaries and slow promotions is losing its appeal, Harold J. Marshall, Secretary of the New York State Bankers Association, said on July 7.

Mr. Marshall, speaking at the annual meeting of the Southern Secretaries Conference of State Bankers Associations, at Biloxi, Miss., declared that "unless banks, and other lines of business, too, start now to plan for the security of employees and their families they will find themselves paying in taxes for government-disbursed security of a type that will make 'every man a king' seem parsimonious." Mr. Marshall stated:

"For many years, bank workers have been content to accept comparatively low salaries and long hours in exchange for continuous yearly employment, six days a week, 52 weeks a year. But today two factors cast doubt upon banking's ability to continue to hold employees on this basis. The first is that subsidized old age and unemployment plans have radically changed the concept of what constitutes security. The second is that most bank employees, on arriving at retirement age nowadays are finding their savings pitifully small."

As a remedial measure Mr. Marshall suggested that every bank should, as soon as possible, institute a pension and retirement fund to provide benefits for old age, disability and death of employees.

As an example of this type of planning, Mr. Marshall cited the New York State Bankers Retirement system, a self-administered trust with a membership of 71 banks, organized in 1939. "A recent survey of employment in the banks of New York State," Mr. Marshall said, "clearly reflected the morale building value of a retirement plan. The survey, which covered 718 commercial banks showed that 71 members of the retirement system actually had a 1942 turn over, aside from the employees in the armed services, which was 51% lower than that in the rest of the state." He added:

"During the last few years, public opinion on retirement provisions has undergone a radical change. A pension fund is no longer thought of in the light of charitable outlay but rather as form of deferred compensation which works out to the advantage of both employer and employee.

"Just as the right of franchise, religious freedom, and freedom of expression and thought have become part of each indivdual's heritage, so, too, is the idea becoming firmly established that security in old age is the right of everyone. Bankers who plan now for the old age of their employees, and who do so by a system whereinunder the employee helps build his own future, therefore, are anticipating this trend and are helping to assure banking of continued high standards of personnel."

Record Naval Bill Signed

President Roosevelt signed on June 26 the record naval appropriation bill providing approximately $33,000,000,000 for the 1944 fiscal year. The measure carried $27,637,222,198 in direct appropriations and approximately $6,000,000,000 in contractual authority, one of the major items being approximately $5,000,000,000 to provide the Navy an additional 27,000 planes.

The House passed the bill originally on May 20 and the Senate on June 7. A conference report adjusting differences in the two versions was adopted by the House on June 17 and by the Senate on June 18, thus completing Congressional action.

Senate passage of the measure was noted in our issue of June 17, page 2286.

A Bank Of International Cooperation: A World RFC

(Continued from first page)

tion. His suggestions are realistic as compared with the visionary, and to this country most costly, ideas advanced by Lord Keynes or Mr. Morgenthau. To my mind Mr. Dewey's article, read in connection with the recent address of Dr. Anderson, should be made the basis of United States international banking policy.

FRANK CIST,
Brewster, Mass.

In the "Commercial and Financial Chronicle" of June 24, Representative Dewey of Illinois proposes that, instead of the "currency stabilization" plans of Messrs. Keynes and Morgenthau, we organize what he calls a "Bank of International Cooperation" for purposes which he sets out. Some drastic international monetary plan is undoubtedly going to be needed after the war because foreign countries, broadly speaking, are then going to lack both gold and credit as a means of paying us for what they need to buy from us. Yet hope of aid of some kind should be held out to them to help convince them that our victory will be in their interests.

Before taking up Mr. Dewey's plan, let us, by way of contrast, examine that of the British. Keynes' British plan involves the creation of drawing accounts in a new international "money" called "bancor" in sums which John H. Williams, in his recent article in "Foreign Affairs," estimates as totaling 30 billion dollars for all countries, of which our share would be five billions. Each participant is compelled to accept "bancor" without limit (the British official paper says: "In the case of credit balances no rigid maximum has been proposed") to the full extent of these drawing accounts, in settlement of all international net indebtedness owing to it. Hence foreign countries, under this plan, could conceivably buy as much as 25 billion dollars more in goods from us than we bought from them, without paying us any interest—except the initial short-term discount—and obligated to repay no part of the loan except as we wiped it out by our own net excess of purchases abroad. The debt could thus remain unpaid and would do so unless and until we bought abroad at a faster rate than hungry foreign nations bought of us. We could, of course, resume the buying of foreign securities. And gold could be sent us as part of our net purchases abroad. But in the long run an international creditor must accept a net inflow of imports or forefit its debt.

Unfortunately the United States does not want a net inflow of imports. As a debtor nation, prior to the last war, we were fully accustomed to the very opposite, a net excess of exports. Such an excess was necessary to pay interest on the debt we owed and to protect our credit. Our tariffs, by shutting out imports, helped maintain this excess. Any reduction of these tariffs did the country harm, injuring both employment and our credit abroad. Experience repeatedly drove home the lesson that lower tariffs were an evil, and that "lesson" was ineredicably fixed in our minds.

Consequently, when a change in our international position to that of heavy net creditor dictated a complete reversal in the direction of this international flow of goods and condemned us to receive a large annual excess of imports we were utterly unprepared mentally and spiritually for the about-face thus required of us and continued to cling stubbornly to the old idea that tariffs were the conventional and proper "protection" for American "employment" and "wage scales" and "standard of living." Secretary Hull's Reciprocal Trade program and the debates on it have done something to educate us but there is as yet no evidence of our sufficient change of heart and we still shut out Argentine beef and levy heavy duties on the goods with which our comrades in arms, the British and Canadians, try to repay us for the war materials we have been sending them. This ignorant conduct by us has done great harm, stripping the world of gold and silver to a serious degree and probably, by contributing to cause the rise of Mussolini and Hitler, helping cause the war.

Well aware of the consequences of our misguided policies in the past and fearing that we might continue them in the future, Lord Keynes has put forward a plan by which, after the war, we will sell foreign countries what they will badly need to buy taking in payment what are virtually generalized claim checks valid only when presented for foreign goods. Representative Dewey's alternative is to sell bankrupt foreign countries our goods, taking in payment—and storing—extraordinary supplies of tin, tungsten, vanadium and other war materials which we might otherwise be short of. A substantially similar proposal has come from Senator Lodge of Massachusetts. Both these congressional ideas insist on our taking the goods now instead of getting claim checks for indefinite future delivery. They propose to stabilize exchange by supplying foreign countries with markets instead of merely with money.

Once this aim is fixed in mind other means of realizing it suggest themselves besides the ones proposed by Messrs. Dewey and Lodge. 1. We can buy more "Virgin Islands" or lease foreign territory, airplane bases in Iceland, for instance. What territory we might desire and other nations might be willing to sell or lease to us cannot be foretold in advance. Whether France would sell us Martinique, or England Bermuda, or Nicaragua another canal zone, or Mexico Lower California, could only be discovered by negotiation. Triangular exchanges are conceivable whereby we were able to purchase Spanish Morocco, for instance, and exchange with Britain for possessions in this hemisphere. 2. Increase the pay and improve the housing of our diplomatic and consular representatives abroad. 3. Encourage foreign travel, possibly establishing some foreign scholarships. 4. Create a fund to buy foreign art treasures, libraries, museum pieces. 5. Restrict the use of certain foreign patents here, thus forcing the production of non-competitive articles abroad. By all these means we could supply foreigners with dollars for the purchase of our exports.

In view of our stubborn refusal to measure up to our national responsibilities as world creditor the possibility of carrying such a program far enough to transform this country back into the status of net international debtor might be seriously considered. Then our tariffs would not cause such tragic mischief.

Should we desire foreign territory under such a program we should probably initiate discussions at once. After Germany and her European allies have been conquered and after major British, French, Dutch Far-Eastern possessions have been recovered from Japan our bargaining position will have been largely dissipated. Our help in the reconquest of France will then scarcely induce the French to sell us Martinique. Not that they or the British will want to deal shabbily with us. But they will be worn out, with their hands full in the reconstruction of a stricken Europe, Japan will seem a long way off and the war with her will then seem primarily our war. Their aid to us in that war will then seem to them enough for them to offer without their being asked to give up their possessions. The time to negotiate is now.

Whether we like it or not we are going to have to aid Europe after this war just as we aided her after the last war. That aid, according to Benjamin Anderson, in the "Commercial and Financial Chronicles" of May 20 and 27, cost us last time about three billion dollars in loans which were never repaid. Once more the need of aid is being urged upon us. Representative Dewey proposes means by which we can get something non-competitive for what we give. That, without going into the vast complexities of the subject, seems to be the heart of his suggestion.

Quotation Sheets And Market Price

(Continued from page 100)

been admitted as evidence.

In the case of Helene Hallgarten vs. Stewart J. Lee, the issue of the market price of two oil royalties was directly raised. This case was tried at the April, 1943, Term of the U. S. District Court for the Southern District of New York. The defendant was represented by the writers.

To establish that market price, the plaintiff, over the defendant's objection, introduced in evidence certain quotation sheets which are nationally distributed.

The defendant proved:

(a) That these sheets contained no record of sales actually made;

(b) That the circulation of the sheets was limited to actual subscribers;

(c) That these sheets were not available to the general public;

(d) That prospective subscribers must be approved by those currently receiving these quotation sheets, and a single black ball rejects;

(e) That the number of dealers actually receiving the sheets in proportion to those operating is small; and

(f) That the number of listings authorized in them depended upon the subscription price.

Based on that showing, Judge James Alger Fee rendered the following decision on the subject of market price:

"The Court finds from the evidence that there is no established market price for the royalties in question.

"That at the time these sales were made to the plaintiff there was no market value for the sales and purchase of these royalties to the general investing public.

"That the proof which has been offered regarding the market quotations indicates that these were quotations among dealers, but these, in the Court's opinion, do not establish a market value even among dealers."

While Judge Fee also decided as dicta that these findings are not binding on the SEC, watching the future tack of "The Commission" in its attempt to regulate the sale of oil royalties, will be interesting.

Market value may also be established by the expert testimony of security dealers. "The Commission" will not find this method easy sailing for there is reason to believe that strong resentment exists against it, on the part of dealers, because of so-called "over-regulation."

Attractive Situations

Blair F. Claybaugh & Co., 72 Wall Street, New York City, members of the Philadelphia Stock Exchange, have prepared interesting circulars on Ft. Dodge, Des Moines & Southern Railway (4s of 1991 and common), Utica & Mohawk Valley Railway (4½s of 1941), and Consolidated Dearborn (common), which the firm believes offer attractive possibilities at current levels. Copies of these circulars may be had upon request from Blair F. Claybaugh & Co.

Can The United States Support A 300 Billion Dollar Debt?

Can, and will, the gigantic post-war Federal debt be redeemed in money of present or pre-war purchasing power, or will it be repudiated directly or indirectly, in whole or in part? Dr. Olin Glenn Saxon, Professor of Economics, Yale University, undertook to supply an answer to this question of primary concern to the entire nation and, at the same time, discussed the vital stake of the millions of investors in war bonds in the methods employed in working out a sound solution of the problem, in an extremely timely article, bearing the above caption, which appeared in the "Chronicle" of May 13.

In line with its suggestion, the "Chronicle" received various comments regarding the views and conclusions set forth by Dr. Saxon in his article. Some of these letters were given in previous issues and others are given herewith:

T. C. WHITEMAN
Templeton, Whiteman & Voorhies, Greenville, Pa.

I have just finished reading a copy of Dr. O. Glenn Saxon's article on "Can United States Support a 300 Billion Dollar Debt." Whether or not we can support such a debt, we are going to have to wrestle with it and any sound thinking on it is helpful.

It is too big for anyone to comprehend but it must be solved and fairly so if we don't bankrupt our country. I have seen in small communities bank failures, the results of which were just sad — old people who had enough set aside to bury them, others whose days of labor were over with a little security set by—and then it was wiped out with no hope of their ever recuperating.

When you think of approximately 50% of the public debt being held by the banks and that repudiation would ruin them all and add to the sad results I spoke of above, disaster to business, employment and everything else, it is not pleasant to contemplate.

Dr. Saxon's article struck me very favorably until I read the paragraph "Lotteries for Debt Retirement." This goes against the morals which have been set up by thousands of years of experience and forgets that the rules to make a great nation were laid down by God Himself and his Divine Son in the Ten Commandments and the Sermon on the Mount * * * No nation in the world has become great and lasted which has forsaken the ways of the Lord.

Lotteries are indulged in not by the well-to-do but by the drivers of the ice wagons, the elevator girls and the colored porters of the hotels. The sellers of the numbers rackets don't work among the well-to-do. They have had for instance in our little town, a man going about every day collecting from one to ten cents.

A lottery impoverishes the people. If you want to see it, spend a week in Havana.

If this thing is handled, it is not going to be handled on any lottery basis. It is going to be handled with a spirit of courage and sacrifice and that only comes in the long run from an obedience of the moral law.

CHARLES N. THOMPSON
Vice-President, The Inn, Buck Hill Falls, Pa.

In one sentence of Olin Glenn Saxon's "Can the United States Support a 300 Billion Dollar Debt?" he seems to cast a stigmatism on the sales tax; it may not have been intended.

Do you realize what a sales tax laid as a substitute for all taxes, but particularly as a relief from real estate tax, would mean as a vehicle to take us out of our National debt and most of our other difficulties?

Just envision a country without a real estate tax—a tax that was conceived thousands of years ago and is as out-moded to meet present-day conditions as would the tallow candle meet present-day needs.

Why should we hold our taxing plan sacred when every other detail that enters into human existence changes?

Do we realize that the real estate tax is truly un-American because it is confiscatory—you, my neighbors, take my property away from me when I am no longer able to pay the tax on my property which I built probably for the betterment of my community?

It has been generally recognized that a country of home-owners is a strong country. The abolition of a real estate tax will increase the number of home-owners in America 100% in ten years.

Why? Because home-owning will have decidedly fewer headaches. Mortgage money will be cheaper because it will be safer. It will be a surer investment because it can be made a first mortgage—today taxes are a first mortgage on every property.

I predict abolition of real estate tax would bring about ten years of unprecedented building, and attendant activities, that would develop a business activity that would very actively melt our three hundred billion responsibility.

Our Reporter's Report

(Continued from page 99)

subject to aproval of the Commission, will be held tomorrow.

The loan, which was the biggest piece of financing undertaken by a railroad in more than two years, was quickly absorbed when offered by bankers.

The Commission, in agreeing to hear Otis & Co., Cleveland bankers, who seek to force competitive bidding, granted that firm the right to intervene in its capacity as a stockholder of the Pennsylvania Railroad.

Redemptions Top New Issues.

The investment market came off second-best from a standpoint of net result judging by the volume of new issues as compared with the total of redemptions in the month.

Calculations show that the month brought a total of $110,000,000 in new issues against $115,000,000 in the same period last year. The largest single issue was that of the Pennsylvania, Ohio & Detroit Railroad mentioned heretofore.

Meanwhile redemptions for the month footed up to a total of $150,000,000, of which utility companies contributed some $96,000,000.

The balance for the half year ended June 30 was a bit more satisfying, showing an aggregate of $674,000,000 of new emissions, well below the 1942 comparable of some $846,000,000, but likewise substantially greater than the six months' redemptions of approximately $357,000,000.

Backlog Builds Up

The current week, starting with the Independence Day holiday, promises to be rather quiet as far as new offerings are concerned. And bankers expect little in the way of renewed activity before the final week of the month.

But the backlog of potential marketings continues to pile up, thus raising hopes of a greater turnover as the summer wears along.

Adding to the already rather substantial roster of proposed operations in registration with the Securities and Exchange Commission, the Utah Power & Light Co., of the Electric Bond & Share group, has filed for $37,000,000 of new first mortgage bonds to mature in 1973. Together with $7,000,000 to be raised through serial bank loans, funds from the bond issue would be used to retire outstanding obligations.

Meanwhile Consolidated Cigar Corporation has registered for $7,000,000 of 10-year 3¼% sinking fund debentures to mature in 1953.

Make Mine Ruppert's

Ever since Jacob Ruppert, New York brewing company, filed registration a fortnight ago covering the proposed sale to the public of $2,744,000 of its 5% debentures, the byword around some investment quarters has been the company's slogan, "Make Mine Ruppert's."

The sale of the foregoing debentures will not represent any new financing by the issuer, but rather will take the form of a secondary distribution, since it will involve dispersal of the debentures now held in their entirety by certain stockholders.

Labor Drafting Laws Appear Possible

United Press reports from Washington on July 5, stated that legislation for the draft of labor to prevent possible collapse of manpower policies appeared to be headed for enactment when Congress returns from its summer recess. It will probably have Administration backing, said the press advices which added:

"It was said in some quarters that a proviso might call for the dismissal of Paul V. McNutt, war manpower chief, who has been under fire from some legislators. Although Mr. McNutt believes a labor draft is "inevitable," he has been experimenting with voluntary methods and pleading for time to prove them.

"The Administration, faced with the recruiting of 3,600,000 men and women for essential war work in the next twelve months, is said to look favorable on the National Service Act drafted by Representative Wadsworth of New York and Senator Austin of Vermont.

"Mr. Wadsworth, who conferred with the President last week, said he had received no definite commitment, but got the impression the Administration was showing 'greatly increased interest' in the draft proposal.

"Officials of the War Manpower Commission, estimating that 2,300,000 persons in non-essential work must be shifted to war jobs and that another 1,300,000 must be added to the labor force, said the worker recruiting problem was becoming increasingly difficult now that the more readily available persons had been absorbed

Willys Overland Offers Speculative Possibilities

The common stock of Willys Overland Motors, Inc., offers better-than-average speculative potentialities, according to a memorandum issued by Van Alstyne, Noel & Co., 52 Wall Street, New York City, members of the New York Stock and Curb Exchanges. Copies of this interesting memorandum may be had from the firm upon request.

Cgo Rapid Transit Co. Appears Interesting

Chicago Rapid Transit Co. offers an interesting situation, according to a brochure being distributed by Leason & Co., Inc., 39 South La Salle Street, Chicago, Ill. Copies of this brochure may be had upon request from Leason & Co.

Situation Looks Good

The current situation in Pitts burgh Terminal Warehouse & Transfer first 5s of 1936 offers in teresting possibilities, according to a memorandum issued by Hill Thompson & Co., Inc., 120 Broad way, New York City. Copies o this memorandum may be ha from the firm upon request.

Howell Motors Attractive

Common stock of Howell Elec tric Motors Co. offers interestin possibilities, according to a cir lar being distributed by Allmar Moreland & Co., Penobscott Bldg Detroit, Mich., members of th Detroit Stock Exchange. Copie of this circular may be had fror the firm upon request.

Municipal News & Notes

Crouse, Bennett, Smith & Co. of Detroit announce the release of their periodical Michigan Municipal Bond Quotation Sheet. Harold R. Chapel, manager of the Municipal Bond Department, who furnished the quotations, states that the publication is one of the most complete the firm has published over a long period of time. It shows a brief description of nearly all of the municipal bonds outstanding in the State, including purpose, interest rates, maturities, and the approximate market, and represents on the average about ½ of 1% higher prices or lower yields than shown on their last quotation sheet about a year ago. Copies may be secured free upon request from Crouse, Bennett, Smith & Co., 2780 Penobscott Building, Detroit.

Delaware River Commission Completes Refunding Plan

Final terms of the proposed refinancing by the Delaware River Joint Commission of Pennsylvania and New Jersey of its $35,238,000 of oustanding 4½s, due serially to 1973, have been decided upon by the unit's finance committee. The commission will enter the market with a new issue of $37,000,000 of 30-year term bonds, which will be callable at the end of three years at 105. The call premium will be reduced by 1% at the end of each succeeding five-year period. The commission will offer the new refunding bonds at public sale on July 14.

The coupon rate is to be determined by bidders in multiples of tenths, eighths, or quarters. Delivery date of the new bonds is set for Aug. 2, following which the outstanding 4½s will be called for redemption at a price of 105. The 5-point call premium is to be capitalized as a part of the new issue.

The commission operates and maintains the Delaware River bridge between Camden, N. J., and Philadelphia, Pa.

State Surplus Revenues Used To Retire Debts, Etc.

Examination of measures enacted or proposed in State Legislatures this year and last with regard to surpluses of individual States leads to the conclusion that most of them "seek to combine a cautious foresight toward future perils with the urge to provide relief to the taxpayer or to improve State services," according to a survey of State revenue trends by the Federation of Tax Administrators.

Most States have adopted laws providing for establishment of reserve funds, either for post-war purposes or as a "cushion" against anticipated revenue declines that may endanger debt retirement or other services.

Some have used parts of their surpluses to raise salaries, retire debts or increase aid to municipalities in addition to setting up reserve funds for post-war use. A few have reduced taxes, mainly by increasing income tax exemptions or by reducing retail sales taxes, and two—South Dakota and West Virginia—have repealed their income taxes outright.

Following are brief examples of surpluses in individual States and of measures taken or proposed to relieve the surpluses:

ARKANSAS: Legislature reported to have "dipped so deeply into the general revenue fund (which had a $1,100,000 surplus in January) that the current surplus may be wiped out before the legislature meets in 1945." The legislature appropriated $325,000 for increases in teachers' salaries and $100,000 for increased aid to the State medical school; $148,000 in gasoline and oil inspection fees were transferred from the general fund to counties. Altogether these expenditures may wipe out the surplus during the next biennium.

CALIFORNIA: California had an $80,000,000 general surplus in March, and anticipates a surplus of $100,000,000 by mid-Summer, with a monthly increase of about $2,900,000. The 1943 legislature enacted a $65,000,000 tax reduction program which, among other things cut the sales tax rate from 3 to 2½%, a biennial reduction of $28,000,000 in revenues; granted corporation income and franchise taxpayers a 15% war credit, or a reduction of $10,400,000; increased personal income tax exemptions and granted other exemptions for a reduction of $27,000,000 in revenues. Enacted also were measures freezing $41,000,000 into a war catastrophe reserve and a bond redemption fund, and earmarking $43,000,000 for post-war reconstruction work.

ILLINOIS: Legislature authorized investment of $60,000,000 surplus, as of January, 1943, in war bonds and other U. S. securities.

IOWA: Anticipates a surplus of $14,000,000 by June 30. Nearly $3,000,000 has been frozen for post-war reconstruction. State income payments due in 1943 and 1944 were reduced by 50% this year by the legislature.

MAINE: $2,400,000 general fund surplus estimated for June 30. The expected surplus has been absorbed for the most part already in increased expenditures, especially for social services.

MICHIGAN: Surplus of $50,000,000 expected by July 1. Law to set up post-war reserve fund of $50,000,000 adopted in February, and $20,000,000 of the existing surplus was earmarked for the purpose. State also appropriated $8,000,000 for a post-war State building program.

NEW YORK: $69,000,000 surplus on April 1, end of nine months of the 1943 fiscal year, with surplus of $100,000,000 estimated by July 1. The legislature this year continued for the second year a 25% reduction in State income tax payments, increased tax exemptions, and allowed deductions for medical expenses, insurance premiums and dependency. Further pay increases were granted State employes. Funds were provided for planning and executing post-war programs.

NORTH CAROLINA: $31,000,000 surplus in January. Under 1943 State law a post-war reserve fund was set up to which $20,000,000 of surplus was transferred. Further transfers will be made. Flat pay raises of $25 a month, expected to total more than $6,000,000, were granted school teachers for the next two years.

OKLAHOMA: $5,500,000 surplus for the last fiscal year used to reduce the State debt by taking up bonds held by the school land department.

OREGON: $12,000,000 surplus estimated for July 1, resulting from increases in income and excise taxes. Surplus will be left after $10,000,000 is applied toward canceling State property levies and elementary school taxes, and $5,000,000 is used to set up a school support fund to offset special property levies in school districts. The legislaure reduced taxes on this year's income, both corporation, excise and personal, by 30 to 40%.

TENNESSEE: $2,860,000 general fund surplus estimated for June 20. A "cushion" of $7,700,000 in State sinking fund was established to maintain debt retirement program.

VIRGINIA: $18,600,000 unencumbered general fund surplus anticipated by June 30. Legislature authorized the purchase of Federal securities in a move to liquidate the State debt of $18,000,000.

WASHINGTON: $35,000,000 surplus in March. Legislature granted 30% pay raises to school teachers and, among other things, made several million dollars available to local governmental units to solve war-brought problems.

WEST VIRGINIA: $10,000,000 surplus expected by the end of the current biennium, June 30. Legislature, however, has cut revenues for the next biennium, including repeal of the State personal income tax law.

Other States with surpluses listed in the federation's study include Kansas, $33,960,000 as of January; Maryland, $7,800,000; Mississippi, $10,000,000 expected by June 30; Ohio, $40,000,000 new balance in State treasury in January; Wyoming, $1,600,000 general fund surplus in January.

Cities Establishing Post-War Reserves

The nation's cities are establishing financial reserves for the post-war period by several methods—setting aside cash from surplus funds, investing surplus funds in war bonds, setting up depreciation accounts for replacement of equipment and utility extensions or by paying off debt.

In addition to these methods, according to a survey of 92 cities by the International City Managers' Association, quite a few communities are maintaining present tax rates to build up financial reserves. Austin, Tex., and San Diego, for example, are setting aside tax funds for deferred capital improvements, while Schenectady, N. Y., has levied an additional tax for the same purpose. Only two of the municipalities referred specifically to the possibility of Federal aid.

All except four of the 19 cities

(Continued on page 127)

Bank and Insurance Stocks

This Week — Insurance Stocks

By E. A. VAN DEUSEN

The stocks of representative old-line fire insurance companies have an investment character that places them in a class by themselves. Not only is the business of fire insurance utterly unlike the business of industry in general, but the assets of the business are invested widely throughout the "Wealth of the Nation", its representative companies do business on a nation-wide scale, and furthermore, they are among the oldest corporate business organizations in America.

George Washington was serving his first term as first President of the United States of America when, in the year 1792, the Insurance Company of North America was formed in the City of Philadelphia. In 1799, during the term of John Adams, second President, the Providence Insurance Company was organized, and in 1800, the Washington Insurance Company. The latter company was named in honor of George Washington, whose death had but recently occurred. The two companies combined as Providence-Washington Insurance Company in 1817.

The Hartford Fire Insurance Company, first of the Connecticut companies, was formed two years before the war of 1812; five years later, when James Monroe was President, the Fire Association of Philadelphia began business. Aetna Insurance Company, second of the Connecticut companies, was organized in 1819. By the time Abraham Lincoln was President and the country was in the throes of the Civil War, some 25 fire insurance companies were already in existence and had been doing business for periods varying between eight and 70 years. Agricultural Insurance Company and Fireman's Fund Insurance Company started business in 1863, while the Civil War was in progress.

A large proportion of leading American stock fire insurance companies have their roots deep in the early history of the United States. They have experienced the same recurring cycles of war and peace, depressions and booms, as has the Nation; they have met the test of huge conflagrations, such as those at Chicago, San Francisco, Baltimore, etc., and they have emerged proven, mature, sound and vigorous institutions. Their insurance risks are written in every one of the 48 States, as well as in the District of Columbia, Alaska, Porto Rico, Hawaii, Canada, etc. They protect the homes, churches, factories, institutions and other material wealth of the entire country against loss from fire and other calamities. Their funds are invested in the soundest of the country's enterprises—commercial, industrial, financial, railroad, public utility—as well as in the obligations of States, municipalities and the United States Government. As the Nation has grown and prospered, so have these insurance companies, and as the Nation continues to grow and prosper, so also will these companies.

It seems clear from all this that the stocks of representative fire insurance companies offer a medium investment which is unique, since a carefully selected and diversified list provides the investor with what amounts to in essence, an **Equity in America.**

In order to illustrate this a little more concretely, let us select a small group of leading old-line fire insurance companies, whose management policies show considerable variation, as evidenced by the allocation of their premium writings and the investment of their funds. This situation requires the investor to offset one company against the other, if he wishes to obtain a fair cross-section and a reasonably balanced "equity" in the wealth of America.

ALLOCATION OF NET PREMIUMS WRITTEN—1942

Company—	Fire	Ocean Marine	Motor Vehicle	Inland Nav. & Tr.	Aviation	All Other Classes
Springfield F. & M.	61.5%	5.0%	10.6%	6.5%	0.4%	16.0%
Continental	55.2	20.5	7.0	4.4	0.6	12.3
Home	54.2	14.2	9.6	6.7	0.0	15.3
Fire Association	51.5	24.2	10.9	5.7	0.0	7.7
Agricultural	51.1	23.8	13.9	2.8	0.4	8.0
Aetna	50.7	19.9	8.4	8.4	0.6	12.0
Hartford	49.4	17.2	11.5	7.9	0.3	13.7
North River	48.3	32.9	3.4	3.7	0.6	11.1
Providence-Washington	37.4	34.9	8.5	11.4	0.0	7.8
Ins. of N. A.	33.2	41.7	5.4	12.0	0.2	7.5
Average	49.3%	23.4%	8.9%	7.0%	0.3%	11.1%

CLASSIFICATION OF INVESTED ASSETS—DEC. 31, 1942

Company—	Mortgages	Bonds: U.S.G.	Bonds: Corporate	Bonds: Total	Pref. Stocks	Common Stocks: R.R.	Common Stocks: Util.	Common Stocks: Banks & Ins.	Common Stocks: Industrial	Common Stocks: Total
	%	%	%	%	%	%	%	%	%	%
Springfield F. & M.	3.9	29.6	7.4	43.9	8.0	0.9	2.5	34.1	6.7	44.2
Continental	0.2	11.3	12.3	29.8	13.9	3.4	1.5	31.2	20.0	56.1
Home	4.8	14.1	8.4	30.1	15.3	4.0	2.8	16.0	27.0	49.8
Fire Association	7.1	26.3	1.6	30.8	19.6	1.5	1.3	21.6	18.1	42.5
Agricultural	12.0	19.4	11.5	34.9	15.5	0.2	0.9	17.7	18.8	37.6
Aetna	3.9	25.5	14.1	44.2	6.0	0.4	3.3	41.0	1.2	45.9
Hartford	3.6	29.0	6.1	41.8	12.3	0.5	1.6	37.7	2.5	42.3
North River	0.7	42.6	4.0	50.3	11.8	5.0	2.3	3.8	26.1	37.2
Prov.-Wash.	0.8	25.3	1.3	33.2	15.7	1.8	2.9	22.0	23.6	50.3
Ins. of N. A.	55	10.0	5.6	18.3	24.2	1.9	2.5	29.3	18.3	52.0
Average	4.3	23.3	7.2	35.7	14.2	2.0	2.2	25.4	16.2	45.8

(Continued on page 126)

Investment Trusts

Thinking Out Loud

The "open-end" investment companies had total assets in excess of $509,700,000 at the 1942 year-end. That's only "peanuts" these days. But just relax, chum—a fellow has to learn to crawl before he's ready to get up on his hind legs and go places. The investment trust sponsors who are still around today have had their "trial by fire." They've got something!—something as important to free American investors as life insurance and savings banks. Give them another five years, chum, and you'll see individual companies with larger assets than the entire field has today.

* * *

Good stuff—that series on post-war backlogs in National Securities & Research Corp.'s **Investment Timing** service. The latest one is on the automobile industry and arrives at the following interesting conclusion:

"Though estimates vary widely, a post-war backlog of 11 million cars appears conservative. If the war lasts longer than expected (past 1945), the backlog will, of course, increase. Relatively unfavorable economic trends, which we do not expect, could postpone, spread out, or reduce slightly the demand, but it is difficult to visualize conditions that could prevent relative prosperity in the automotive field. A level of output for several years equal to or higher than previous records is to be expected.

"At present levels, the stocks of neither the automobile nor the auto parts companies appear to discount the favorable post-war prospects. While the major producers offer the surest means of participating in any improvement, unusual speculative opportunities may exist among the shares of the independent makers."

* * *

Bang, bang, bang! How in hell can a dealer get any sleep with that Distributors Group crowd shooting so much sales literature at him every week? The stuff's too good to throw away and with taxes what they are, it's like forcing a man to work for the Government.

* * *

With the increase in popularity of bond funds, we've often wondered how they were stacking up as to performance, particularly inasmuch as direct comparisons are difficult because of the wide quality range in composition of the individual bond portfolios. Now comes Lord, Abbett's **Union Dealer** with the following report on Union Bond Fund C: "From January 1, 1942, to June 22, 1943, the net result has been the best performance . . . of all open-end bond funds." 1942 performance is given as plus 25.7% and 1943 performance to June 22 as plus 34.4%.

". . . For every $3 the average American had left in his pocket (after paying his taxes and his war savings) in the early months of 1941, an extremely prosperous year, he has about $4 left now . . .

"The issue of inflation has been discussed in America almost ad nauseam. But it is possible that the public has been left with the impression that inflation is a species of economic malady which can be cured if the right patent medicine is administered in Washington.

"The plain truth is that no legislative or administrative mechanisms can dam up inflation, if so great a head of liquid purchasing power is allowed to press upon the dam. It has not been put to the American people with sufficient clarity that arguments over the different methods of price-control, wage-control and rationing are pointless until the flood has been abated. The rates of taxation have been increased and they will doubtless be increased again in this year's Tax Bill. Pay-as-you-go may also assist the revenue to catch up with the flood of income. But nothing that is now contemplated will be enough to reduce the problem to manageable dimensions."—From the London "Economist" as quoted in the current issue of Lord Abbett's **Abstracts.**

* * *

"Nearly all normal Americans want to have a stake in American business, want to share in its future growth and the profits that it produces . . . They have seen with their own eyes America in action—their country, their system—rising to the top position in military power, dwarfing the production records of any nation on earth:

"Setting a goal of 90,000 aircraft in 1943, twice the estimated combined output of Germany and Japan.

"Producing twice as much aluminum in a year as the whole world produced in 1940.

"Adding in a few brief years, almost 20 billion dollars of new plant and equipment.

"Employing 62 million persons gainfully against a previous peak of 48 million.

"Building a million tons of fighting ships in a year, expanding the Navy to a million and a half men and 25,000 ships and then setting a new goal for a year from now of two and a half million men and over 40,000 naval vessels of all types.

"Creating a huge synthetic rubber industry that will free us forever from dependence on the natural product.

"Pioneering a world-wide system of air transport carrying millions of pounds of war materials staggering distances in incredible time.

"Building 8 million tons of merchant ships in 1942—more in one year than our total merchant tonnage in 1941 and setting production schedules in 1943 for 20 million tons—enough to make the American Merchant Marine in 1944 twice that of any competitor.

"People see all this and realize that American business so dominant in war cannot fail to be dominant in peace. They want to be a part of it, but many of them lack both the time and the technical training for studying and analyzing and seeking out those industries and companies which on the basis of present earnings and future prospects appear to be most undervalued. Or their funds do not permit of sufficient diversification in their investments."—From the Parker Corporation **Letter.**

Incorporated Investors now has net assets of approximately $48,000,000 owned by about 27,000 stockholders.

* * *

With salaries frozen and expenses increasing, Keystone Corporation in a recent issue of **Keynotes** concludes that "every investor should:

"1. Invest idle cash.

"2. Replace non-paying securities with paying issues.

"3. Check all paying securities to increase income, without increasing risk, wherever possible."

Dividends

Keystone Custodian Funds, Inc.—A dividend of 95 cents payable on Series "B3" and a dividend of 8 cents payable on Series "S4" on July 15, 1943, to stock of record June 30. Of the Series "B3" dividend, 32 cents is out of realized profits.

Massachusetts Investors Trust—A dividend of 22 cents per share payable July 20 to shareholders of record June 30, 1943.

Clothing Stock Looks Good

An interesting descriptive circular on Fashion Park, Inc., which the firm believes offers attractive possibilities, has been prepared for distribution by Simons, Linburn & Co., 25 Broad Street, New York City, members of the New York Stock Exchange. Copies of this circular may be had from Simons, Linburn & Co. upon request.

Twentieth Century Preferred Stock Offered At 100

An underwriting group headed by Lehman Brothers and Hayden, Stone & Co., and including Blyth & Co., Inc., offered July 7 a new issue of 100,000 shares of Twentieth-Century-Fox Film Corp. prior preferred stock (no par), $4.50 dividend cumulative, at $100 per share.

Other members of the underwriting syndicate include: Baker, Weeks & Harden; A. G. Becker & Co., Inc.; Eastman, Dillon & Co.; Glore, Forgan & Co.; Goldman, Sachs & Co.; Hallgarten & Co.; Harriman Ripley & Co., Inc.; Hemphill, Noyes & Co.; Hornblower & Weeks; Kidder, Peabody & Co.; Kuhn, Loeb & Co.; Lazard Freres & Co.; Carl M. Loeb, Rhoades & Co.; Merrill Lynch, Pierce Fenner & Beane; Smith, Barney & Co. Stone & Webster and Blogett, Inc.; Union Securities Corp.; Wertheim & Co., and White, Weld & Co.

Net proceeds from the sale of the stock, together with other cash funds of the corporation, will be used to purchase from The Chase National Bank of the City of New York, at an aggregate price of $13,000,000, 1,044 shares of the outstanding capital stock of National Theatres Corp. These shares represent 58% of National's outstanding capital stock, the remaining 42% of which is already owned by Twentieth Century-Fox.

Upon completion of the present financing, Twentieth Century-Fox's outstanding capitalization will consist of: 100,000 shares of prior preferred stock; 908,681 6-12 shares of preferred stock, $1.50 dividend cumulative, convertible, without par value; and 1,742,000-23-24 shares of no par common stock. The company has no funded debt.

The prior preferred stock is redeemable at $104 per share on or prior to July 1, 1945; thereafter, and on or prior to July 1, 1947 at $103 per share; thereafter, and on or prior to July 1, 1949 at $102 per share; thereafter, and on or prior to July 1, 1951 at $101 per share; and, thereafter at $100 per share, plus accrued dividends in each case. The prior preferred stock is redeemable for retirement fund at $100 per share, plus accrued dividends.

On or before the 120th day after the close of the corporation's 1943 fiscal year, and on or before the corresponding day after the close of each fiscal year thereafter, if any shares of prior preferred stock are outstanding, the corporation shall set apart out of surplus, for the retirement of the stock a prior preferred stock retirement fund. This sum for the 1943 fiscal year shall be $150,000 or 2% of the consolidated net earnings for that fiscal year, whichever is greater, but not over $250,000; and for any subsequent fiscal year shall be $300,000 or 4% of consolidated net earnings for such fiscal year, whichever is greater, but not over $500,000.

NASD Membership Up; First Rise Since 1941

Membership in the National Association of Securities Dealers, Inc., in June showed the first increase in nearly two years, Wallace H. Fulton, Executive Director, announced today. As of June 30, NASD had 2,228 members against 2,219 on May 30 with fifteen applications for membership pending on the former date.

"The result was the first increase in the total of our members since August, 1941," Mr. Fulton said. On Aug. 30, 1941, NASD had 2,952 members. At its peak,

DIVIDEND NOTICES

'Reverse' Lend-Lease On British Ships

The Lend-Lease Administration stated on July 2 that at the end of 1942 British military and commercial services in various war zones had made a total of 87 vessels of 422,000 deadweight tons available to American authorities.

In Washington advices of July 2 to the New York "Times," it was also stated:

American warships and auxiliaries in British operational areas, it was asserted, received treatment on exactly the same basis as that received by Royal Navy ships and such services were given free of charge.

In another example of "reverse" lend-lease, it was said that the British Ministry of Transport had advanced several million pounds sterling in the United Kingdom to the War Shipping Administration to meet disbursements by United States ships at British ports. Several million pounds sterling have been likewise advanced for costs of transporting American cargoes in British-owned commercially operated vessels.

N. Y. Title and Mtge. Ctfs. Series C-2 Interesting

Seligman, Lubetkin & Co., Inc., 41 Broad Street, New York City, have prepared an analysis of series C-2 first mortgage certificates originally issued and guaranteed by New York Title & Mortgage Co.

Copies of this analysis may be had from Seligman, Lubetkin & Co. upon request.

Post-War Prospects Of Airline Good

John J. O'Brien & Co., 231 South La Salle Street, Chicago, Ill., members of the Chicago Stock Exchange, have prepared a recent analysis of Transcontinental & Western Air, Inc., discussing the interesting post-war prospects of the company. Copies of the circular may be had from John J. O'Brien & Co. upon request.

Tomorrow's Markets Walter Whyte Says—

Group divergency in market now becoming intensified. Air transports, for example, show toppiness while tobaccos and airplane stocks show revival signs. Clue to next move will come from weak issues. Market on verge of either new advance or sharp break.

By WALTER WHYTE

If there is anything certain about the market it is its intensification of divergent trends. For not only do certain groups act better than others, but certain stocks within the groups give a better performance than others in the group. It is therefore impossible to generalize. One can't say, for instance, that the market "acts well" any more than one can say the war is going well. For, just as there are many fronts to the war—the home front—as well as the many battlefields, so are there many stocks which make up the market which don't act well at all.

* * *

During the week just past the German offensive has begun in eastern Europe, and on the other side of the world our Navy has again met, and so far as we now know, defeated the Japs.

* * *

Whether or not this news will have an effect on the market is open to doubt. For up to now practically all the war news has found the market strangely lethargic. But if the actual conflicts find little reflection in security prices the effect of this news on the home front and its corollary, economic ramifications, will be felt in the market place.

* * *

Technically, the action of the market, in the past seven days, has come up with several interesting clues. The sum total of these, however, tend to point to both the up and the down side. Unanimity is one thing the current market does not possess. For example, the best-acting groups are the air transport stocks and the agricultural equipment issues. Yet by the same token these are the groups which should be closely watched for a reversal in trend.

* * *

The air transport issues are now getting their almost daily shot of news. As each piece of news hits the public prints the stocks affected rise a bit more. But, like tired horses, they are beginning to show signs of weariness that no amount of news whipping may help. Eastern Airlines, now about 42, can rise to about 45-46, but at that level it will meet enough obstacles to stop it. TWA, now at 24, can by the same token go to 26-27. But there again it will run into stock.

* * *

In the farm equipments, Oliver Farm Equipment is by far the best of the group. It is wise to watch this one carefully. If it starts to turn down you can almost be certain the rest of the group is through for the time being.

* * *

A group which has not attracted a following is the tobaccos. The best performer in the group is Reynolds Tobacco B." I suggest buying this one between 30½ and 31½, with a stop at 29½.

* * *

The airplane manufacturing group has been one of the poorest performers for some time. The reason is unimportant. Anyway, it doesn't matter to the market purist. But now this long-neglected group is beginning to show signs of firmness. Watch for better action from United Aircraft—the positive stock of the group. It has offerings from 38 to 40. If it takes these on volume it will be a good sign. Another stock, not strictly an airplane issue but closely related to the group, is Sperry, which has been going down since early March. It's now about 30. As a speculation at the market, with a stop at 29, it has much to recommend it. But if it breaks 29 you'd better jump for it can whizz down to the lower 20's without even half trying. Incidentally, if the airplane manufacturing stocks do not hold at present levels you can be reasonably certain that there is something radically wrong with the industry.

* * *

Leaving groups alone and applying market savvy to individual stocks, the following give a better than average performance. Electric-Auto-Lite buy at market, with a stop at 37. Fairbanks Morse, buy at market with a stop at 37. Flintkote, but at market, with a stop at 19½.

* * *

On the other side of the picture the following stocks look dangerous. They may even stop advances in other stocks and carry the whole market down with them. They are General Motors, which runs into trouble from 56 to 57. Goodrich, 41 to 42; International Harvester, 73-75; Jones & Laughlin, 26-27; Loew's, 62-63; Lone Star Cement, 51-52; Montgomery Ward, 48½-49½, and Timken Roller Bearing, 50-51. If most of these don't even try to penetrate their offerings it may mean the end of the whole phase. Of this list, however, the following two show nearby support. These are Loew's at 58 and Lone Star Cement at 48.

* * *

The enigma of the whole market is the steels. U. S. Steel, for example, meets buying just under 55 and better than average selling at 58. Volume in either direction can be an important sign. Of all the steels Youngstown Sheet and Tube stands out as the best potential performer. From 39 (where it is now) to 40 it should run into volume. Failure to take this volume and advance would be another bear signal not only for the stock but the entire market.

* * *

You still hold three stocks: National Distillers, with a stop at 30½; Newport Industries, with a stop at 14, and Raybestos Manhattan, with a stop at 28. Suggest you get out of Raybestos and hold the other two. These, in addition to the stocks mentioned above, will give you a substantial position. But don't forget the stops. The market is on the verge of either another important advance or the end of the first phase, which may be followed by a sharp break. So guard yourself.

* * *

More next Thursday.

—Walter Whyte

[*The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.*]

"St. Paul's" vs. "MOPS"

A most interesting comparative study of the relative merits of "St. Paul's" and "MOPS" has been compiled by W. Wendell Reuss, partner in McLaughlin, Baird & Reuss, One Wall St., New York City, members of the New York Stock Exchange. Copies of the study, giving the author's reasons for his present preference for "MOP" securities may be had upon request from McLaughlin, Baird & Reuss.

Review New ICC Plan For Denver & Rio Grande

The new ICC plan for the reorganization of the Denver & Rio Grande Western Ry. offers interesting considerations, according to a review of the plan and its effect on securities of the railway prepared by Vilas & Hickey, 49 Wall Street, New York City. Copies of this interesting review may be had upon request from Vilas & Hickey.

Registration Revoked

The Securities and Exchange Commission announces that the application of Ernest S. Price, doing business as E. S. Price and Company, 1010 Vermont Avenue, N. W., Washington, D. C., for withdrawal of their broker-dealer registration has been denied. As a result of findings of the Commission, the broker-dealer registration has been revoked.

Real Estate Securities

S. W. STRAUS BONDS

The Return On One Issue Could Have Amounted To More Than 100% Per Annum Over The Last 10 Years!

We noticed yesterday that the entire issue of an S. W. Straus Bond known as "Butler Hall" was called and paid off at par. Yet, only 10 years ago, this same bond was 16% bid, offered at 18%.

We wondered if this was just an isolated case of Straus bonds being paid off and found several interesting facts:

Ten years ago, another of their bonds known as "Marcy Hotel" was 15% bid, offered at 17%. This year, those bondholders who did not wish to extend the maturity of their bonds received par. In addition, this bond has continually paid its 6% fixed interest requirement. Let us assume you were fortunate enough to have purchased one of these bonds at 15% in 1933. Your investment would have been $150 for the $1,000 bond. Over the ten year period you would have received $600 in interest and this year $1,000 in principal. Thus, in ten years you would have made a total of $1,600 on your $150 investment, or more that 100% per annum—and this bond was one of those so-called "dangerous leasehold bond issues."

Among other S. W. Straus real estate bond issues we found called at or above par were the following: (Figures in parenthesis after each issue indicate the bid and asked prices of the bond ten years ago.)

Chrysler Building (36½-38); Flatbush Industrial Building (16½-18); Freeport Theatre (40-45); Finch-Lenox School (14-17); Hotel Syracuse (15-18).

Some other Straus issues were finally settled out at below par, but at considerably higher prices than the low bids of ten years ago. As an example, their Sutton Place Apartments paid off at 83% —were only 15% bid.

Just as remarkable, is a comparison of today's prices of some of their issues compared with the prices of ten years ago, such as—Albany Metropolitan Hotel 86% against 9%; Ludwig Baumann 93% against 33%; Circle Theatre 75% against 17%; Lefcourt Manhattan Building 58% against 17½% and London Terrace Apartments 39% against 9%. Changes appear as good in a great many of their issues, but we have tried to give you a cross index by choosing an example of each type of their bonds, i.e. a hotel, a warehouse, a theatre, a commercial building and an apartment house.

What has caused this cyclical swing in the prices of these real estate bonds? Are their prospects good for further price increases, or will they react again? Well, let us look into the reason for their original decline:

S. W. Straus & Co., like other large underwriters, could not have all good issues. It was inevitable that some of their loans had to go wrong. But somehow or other it was unfashionable in those days for a real estate security underwriting firm to have defaults in their issues. You remember the S. W. Straus slogan, "44 years without loss to any investor." According to a report of June, 1936, compiled by the Securities & Exchange Commission, "investors suffered no loss because interest and principal payments due on the bonds would be met from the pockets of the underwriters if mortgagors defaulted." Apparently investors were not interested where their interest was coming from. A bond was judged as a "Straus" issue not from the security behind the bond. A total disregard for all other criteria of investment worth was prevalent.

When the collapse of real estate values took place in 1930 and 1931 following the 1929 stock market crash, and the S. W. Straus Company could no longer dig into their own pockets to protect their customers from taking any loss on securities purchased through them, a great many defaults took place.

Again the underwriter's name, S. W. Straus & Company, became the distinguishing mark of the real estate bond. Little else counted. The public sold their bonds promiscuously. Good as well as bad issues declined in price. The selling response of investors became even more illogical than when they purchased the bonds.

Now what is the situation in these securities today? During the last decade real estate has gone through one of its most severe depressions. The bonds we are buying today existed through this era and are not new issues, except that they may have been modified or re-issued through reorganization. We can now ascer-

(Continued on page 126)

Spain To Pay On U. S. Commercial Debts

American creditors having arrears of commercial indebtedness in Spain and certain Spanish possessions for shipments prior to July 18, 1936 are being advised by the National Foreign Trade Council, Inc., of which E. P. Thomas is President, that settlement will be made of a substantial percentage of the dollar value of such outstanding commercial debts. The Council along with representatives of the Spanish American Advisory Committee, has been negotiating for some time regarding this settlement and has now received authorization of the Spanish Foreign Exchange Institute to announce that an agreement has been reached for supplying amounts in dollars destined to the payment of bona fide accounts resulting from merchandise shipments and incidental expenses, by individuals and organizations of the United States.

The announcement in the matter made available July 7 further stated:

"The plan contemplates immediate payment of small accounts and a proportional distribution against larger accounts. All claims with necessary supporting documents should be registered with the Council before Aug. 23.

"It is contemplated that dollar exchange in the amount of approximately $3,000,000 now available, will be released by the Spanish Foreign Exchange Institute against provision of pesetas by Spanish debtors for payment or part payment of approved registered accounts.

"The accounts which may be registered include bona fide accounts of American creditors, owing from debtors in the Spanish Peninsula, Balearics, Canary Islands, Ceuta, Melilla, Spanish protectorate in Morocco and Spanish colonies.

"The Council will forward to The Institute will examine these registered with it prior to Aug. 23. The Institue will examine these accounts and will thereafter, upon provision of pesetas by the debtors, authorize the release of dollars to cover full payment of small accounts not in excess of a maximum to be set by the Institute and pro rata payments of larger accounts, these pro rata payments to be based on the total dollars available after determining the aggregate amount of small accounts to be paid. According to Mr. Thomas, it is the intention of the Council, in cooperation with the Spanish American Advisory Committee, to negotiate for release of further instalments of dollar exchange to be applied to registered accounts not paid in full by the release of dollar exchange now contemplated."

Plans for this payment were noted in these columns June 17, page 2288.

Kellett Aircraft Offers Interesting Situation

The situation in Kellett Aircraft Corp., pioneer manufacturer of the "Helicopter and Giro" rotary-wing aircraft, offers attractive possibilities at the present time, according to an interesting circular issued by R. F. Gladwin & Co., 115 Broadway, New York City. Copies of this circular may be had from R. F. Gladwin & Co. upon request.

Seaboard Reorganization Possibilities Interesting

L. H. Rothchild & Co., 120 Broadway, New York City, have prepared an interesting study of the significance of the Special Master's plan for the reorganization of Seaboard Air Line, pointing out various exchanges which the firm believes might profitably be made in the Seaboard securities. Copies of this interesting study may be had upon request from L. H. Rothchild & Co.

Name Now Mixter & Co.

BOSTON, MASS.—The firm name of Chandler Hovey & Co. will be changed to Mixter & Co., effective today. The firm, which holds membership in the New York and Boston Stock Exchanges, and is an associate member of the New York Curb Exchange, is located at 82 Devonshire Street. Partners are Samuel Mixter, who holds the Exchange memberships; C. Terry Collens, Wellington Wells, Jr., and George H. Lyman Jr.

House Group Orders Study Of Individual Excess-Profits Tax

The House Ways and Means Committee announced on July 6 that it will begin work Sept. 8 on general revenue legislation and, at the same time, asked that studies be made of an excess profits tax on individuals. The Treasury's goal is $12,000,000,000 in revenue annually above present collections.

In Associated Press Washington advices, July 6, it was stated:

In a special session as a Congressional recess neared, the tax-framing committee:

1. Requested the committee tax staff and the Treasury to suggest alternative means of raising additional revenue, with specific instructions "to study and report on the feasibility of raising additional revenue by means of an individual excess profits tax."

2. Agreed there would be no retroactive taxes—that the main features of the new tax bill would not become effective before Jan. 1, 1944.

Chairman Robert L. Doughton, Democrat of North Carolina, said the 15 Democrats and 10 Republicans on the committee agreed to approach the problem of increasing revenues "on a non-partisan basis"—in contrast to the recent bitter party differences over pay-as-you-go legislation.

Public hearings on the new general tax measure, increasing the present revenues—highest on record—will begin some time in September.

The committee action came shortly after Treasury officials disclosed they were studying means of applying the principle of excess profits taxes—now levied against corporations—to persons whose incomes have been swollen because of the war. The plan probably will embody a broadening of the present system of basic income tax exemptions to include consideration of "normal" income.

Result Of Treasury Bill Offering

Secretary of the Treasury Morgenthau announced on July 2 that the tenders for $1,000,000,000, or thereabouts, of 92-day Treasury bills to be dated July 7 and to mature Oct. 7, 1943, which were offered on June 30, 1943, were opened at the Federal Reserve Bank on July 2.

The details of this issue are as follows:

Total applied for—$1,175,078,000.

Total accepted—$1,001,757,000 (includes $39,993,000 entered on a fixed-price basis at 99.905 and accepted in full).

Range of accepted bids:

High—99.910 Equivalent rate of discount approximately 0.352% per annum.

Low—99.904 Equivalent rate of discount approximately 0.376% per annum.

Average—99.904+ Equivalent rate of discount approximately 0.375% per annum.

(93% of the amount bid for at the low price was accepted.)

There was a maturity of a similar issue of bills on July 7 in amount of $804,717,000.

Bank & Insurance Stocks

(Continued from page 123)

Careful scrutiny of these two tabulations indicates that investment in only one insurance stock does not provide a truly representative cross-section and that if the investor wishes his investment to approximate, in essence, an **Equity in America** he must select and diversify. For example, in the matter of premium writings, only one-third of the 1942 premium business of Insurance Company of North America was in fire risks, whereas nearly two-thirds of Springfield's were in that category. On the other hand, 41.7% of North America's business was in ocean marine versus only 5.0% for Springfield. North River had only 3.4% in motor vehicle compared with 13.9% for Agricultural; and so forth.

In the matter of investments, similar wide differences in investment policy will be found. For example, North River has 42.6% of its invested assets in U. S. Government bonds, whereas Insurance of North America has only 10.0%. In total common stocks, North River has only 37.2% compared with 56.1% for Continental. With regard to industrial common stocks, Aetna has only 1.2% and Hartford 2.5%, against 27.0% for Home. It will be noted that all companies have a very smal percentage in the common stocks of rails and utilities.

Shakespeare had the right idea in "The Merchant of Venice," as follows:

"My ventures are not in one bottom trusted,
Nor to one place; nor is my whole estate,
Upon the fortune of this present year."

Real Estate Securities

(Continued from page 125)

tain how they reacted in good times and bad. Material facts in connection with the actual earnings of the properties securing various issues are obtainable. Issues have been reorganized on a basis where in most cases their interest requirements can be met. Amortization of the loans is taking place, reducing the issues to where the bonds become more and more valuable. Lack of new construction has absorbed a great many of the vacancies of various properties. Earnings of many hotels have increased tremendously. Reduction of assessments, to a measure in some cases, have offset wage increases by savings in taxes. Reputable dealers in real estate securities furnish their customers with pertinent facts concerning the security behind the bonds they sell them. These dealers have a wide list of issues to choose from, rather than to have to concentrate on a bond an underwriting firm had assumed and can, therefore, be unbiased.

Since the inauguration of this column in September, 1942, many of the real estate issues discussed have considerably improved in price. We still feel that there are many real estate issues still under-valued and proper care in their selection should be profitable.

Domestic Air Carriers Comparison Of Interest

Ward & Co., 120 Broadway, New York City, has prepared a tabulated comparison of 20 domestic air lines showing official figures and statistics of the three main sources of revenue per month and per year, indicating the progress of the various lines. Copies of this interesting table may be had upon request from Ward & Co. Ask for tabulation No. 301.

Calendar of New Security Flotations

OFFERINGS

TWENTIETH CENTURY-FOX FILM CORP.

Twentieth Century-Fox Film Corp. has filed a registration statement for 100,000 shares of prior preferred cumulative stock, without par value. The dividend rate will be supplied by amendment.

Address—444 West 56th Street, New York City.

Business—Corporation is both an operating and holding company, having 36 active subsidiaries, 21 of which are foreign companies and all but two of which are wholly-owned. Engaged principally in the production and distribution of motion pictures of all kinds.

Underwriting—The underwriting group will be headed by Lehman Brothers, Blyth & Co., Inc. and Hayden, Stone & Co., all of New York.

Offering—Price to public will be supplied by amendment.

Proceeds—Net proceeds, together with other cash funds of the corporation sufficient to aggregate $13,000,000, will be used to purchase 1,044 shares of the outstanding capital stock of National Theatres Corporation, representing 58% of the outstanding capital stock of that corporation, the remaining 42% of which is already owned by Twentieth Century. The stock proposed to be purchased is now owned by the Chase National Bank of New York which has entered into an agreement with Twentieth Century under which the latter acquired the right to purchase such stock for the sum of $13,000,000. It is expected that the option will be exercised and the shares of National will be purchased concurrently with the delivery of the prior preferred stock to the underwriters. The statement says that in event this financing may be delayed or the management may deem it advisable to exercise the option prior to the consummation of the financing, the corporation may borrow $10,000,000 from certain banks in New York, and the proceeds to be received from the sale of stock may be used to repay such indebtedness.

Registration Statement No. 2-5158. Form A-2. (6-22-43).

Offered—100,000 shares of prior preferred stock (no par), $4.50 dividend cumulative, offered at $100 per share on July 7 by Lehman Brothers, Hayden, Stone & Co., Blyth & Co., Inc. and associates.

Following is a list of issues whose registration statements were filed less than twenty days ago. These issues are grouped according to the dates on which the registration statements will in normal course become effective, that is twenty days after filing except in the case of the securities of certain foreign public authorities which normally become effective in seven days.

These dates, unless otherwise specified, are as of 4:30 P.M. Eastern War Time as per rule 930(b).

Offerings will rarely be made before the day following.

THURSDAY, JULY 8

UNITED WHOLESALE DRUGGISTS OF FORTH WORTH, INC.

United Wholesale Druggists of Forth Worth, Inc., has filed a registration statement for 5,000 shares of common stock, no par value.

Address—100 West Tenth Street, Wilmington, Del.

Business—Company is a new corporation organized March 25, 1943. It will engage in the business of selling drug store merchandise, other than that manufactured by United Drug Co. to its stockholders who will be the distributors of products of United Drug Co. While the corporation is being sponsored by United Drug Co., no control over its operations will be exercised by that company.

Offering—Common stock will be offered to retail druggists at $50 per share.

Underwriting — No underwriters are named.

Proceeds—Proceeds from sale of common stock will furnish to the company both operating capital and security.

Registration Statement No. 2-5157. Form A-2. (6-19-43).

Amendment filed June 30, 1943, to defer effective date.

TUESDAY, JULY 13

COMMUNITY PUBLIC SERVICE CO.

Community Public Service Co. has filed registration statement for $6,850,000 first mortgage bonds, 3⅜% series due 1973.

Address—408 West Seventh Street, Fort Worth, Texas.

Business — Engaged primarily in the manufacture and purchase, distribution and sale of electricity and ice, purchase, production, distribution and sale of natural gas, and production, distribution and sale of water.

Offering—Price to public will be supplied by amendment.

Underwriting—Central Republic Co., Inc., Chicago, is named principal underwriter. Others will be supplied by amendment.

Proceeds—Proceeds from sale of the bonds, together with other funds of the company, will be used to redeem its outstanding first mortgage bonds which will require, exclusive of accrued interest, $7,102,700. This first mortgage bonds comprise $6,454,000 face amount of 4% series due 1964 redeemable at 105, plus accrued interest from March 1, 1943, to date of redemption, and $400,000 face amount of 4% bonds, second series due 1964, redeemable at 106½ plus accrued interest from March 1, 1943, to date of redemption.

Registration Statement No. 2-5159. Form S-1. (6-24-43).

WEDNESDAY, JULY 14

TWENTIETH CENTURY-FOX FILM CORPORATION

Twentieth-Century-Fox Film Corporation has filed a registration statement for 45,715 shares of preferred stock, $1.50 dividend cumulative, convertible, without par value. The shares are already issued and outstanding.

Address—444 West 56th Street, New York City.

Business—Corporation and its subsidiaries are engaged principally in the production and distribution of motion pictures of all kinds, including features, short subjects and newsreels, in various parts of the world, but primarily in the United States.

Underwriting—The shares of preferred stock registered are outstanding shares owned by the Chase National Bank of the City of New York. The names of the several underwriters who will purchase the shares will be supplied by amendment, together with the amounts to be purchased by each. The purchase agreement and price to be paid for the stock also will be covered by amendment.

Offering—Offering price to the public will be supplied by amendment.

Proceeds—Proceeds will go to the selling stockholder. The corporation will not receive any proceeds from the sale of the stock.

Registration Statement No. 2-5160. Form A-2. (6-25-43).

JACOB RUPPERT

Jacob Ruppert, a corporation, has filed a registration statement for $2,744,000 5% sinking fund debentures, due July 1, 1950.

Address—1639 Third Avenue, New York City.

Business—Engaged in the business of brewing and selling fermented malt liquors. Its principal product is lager beer sold under the name of "Ruppert."

Underwriting—First Boston Corp. of New York is principal underwriter. Names of other underwriters will be named by amendment.

Offering—Price to the public will be supplied by amendment. The securities are now outstanding and will be sold by six holders as follows: Estate of Jacob Ruppert, George E. Ruppert, Amanda E. Silleck, Manufacturers Trust Co., J. Rupert Schalk and Anna C. A. Dunn. The company has now outstanding $2,996,000 face amount of 10-year 5% debentures, due July 1, 1950. It is proposed to modify the debentures without, however, extending the date of maturity or changing the interest rate thereof, changing the designation to 5% sinking fund debentures and providing other covenants. $252,000 face amount of the debentures, as modified, are to be retained by the holders.

Proceeds—The company is not directly to receive any of the proceeds from the sale of the securities. George E. Ruppert and Amanda E. Silleck have each agreed to apply the proceeds to be received by them, to the extent necessary, to repayment in full of their respective debts to the company, aggregating $766,229 face amount, plus interest from July 1, 1943, ($876,291 principal and interest at March 31, 1943.) The company proposes to add the proceeds so received to its general corporate funds.

Registration Statement No. 2-5161. Form A-2. (6-25-43).

SOUTH CAROLINA ELECTRIC & GAS CO.

South Carolina Electric & Gas Co. has filed a registration statement for $20,000,000 first mortgage bonds, series due 1973. Interest rate will be supplied by amendment.

Address—328 Main Street, Columbia, S. C.

Business—Is a public utility operating in South Carolina.

Underwriting—Bonds will be offered for sale at competitive bidding. Names of underwriters will be supplied by amendment.

Offering—Price to public will be supplied by amendment.

Proceeds—Will be applied principally to the redemption at 102¾ of the face amount of $8,361,500 of Broad River Power Co. first and refunding mortgage gold bonds, series A, due Sept. 1, 1954; to the redemption at 105 of the face amount of $1,359,000 of Parr Shoals Power Co. first mortgage 5% sinking fund gold bonds, due April 1, 1952, and to the redemption at 105 of the face amount of $10,213,300 of Lexington Water Power Co. first mortgage 5% gold bonds, series due 1968.

Registration Statement No. 2-5162. Form A-2. (6-25-43).

SATURDAY, JULY 17

NATIONAL SECURITIES & RESEARCH CORPORATION

National Securities & Research Corporation has filed a registration statement for 40,716 shares in First Mutual Trust Fund.

Address—120 Broadway, New York City.

Business—Investment trust.

Underwriter—National Securities & Research Corporation, sponsor.

Offering—Will be continuous and the offering price will vary with the value of a share, which value in turn will vary with the value of the underlying securities in the trust fund.

Proceeds—For investment.

Registration Statement No. 2-5163. Form C-1. (6-28-43).

NATIONAL SECURITIES & RESEARCH CORPORATION

National Securities & Research Corporation has filed a registration statement for 16,631 shares of National Securities Series.

Address—120 Broadway, New York City.

Business—Investment trust.

Offering—Effective date of registration statement.

Proceeds—For investment.

Registration Statement No. 2-5164. Form C-1. (6-28-43).

RIVERSIDE MILLS

Riverside Mills has registered $639,000 5½% first mortgage bonds, dated Feb. 15, 1943, due Feb. 15, 1963.

Address—Augusta, Ga.

Business—Company devotes its activity almost entirely to cotton textile by-products or waste.

Underwriting—No formal underwriting agreement has been entered into covering the exchange offered.

Offering—Under a plan of reorganization Riverside Mills offers to the holders of its preferred stock in exchange therefor $120 par value in first mortgage 5½% bonds, plus $2.625 in cash for each share of its preferred stock, provided that 75% in amount of the issued and outstanding preferred stock accept the same and tender their stock in exchange on or before Sept. 1, 1943, but time may be extended by the board. The bonds of this issue shall only be exchanged for preferred stock or sold to raise money to purchase and retire preferred stock or to reimburse the company for preferred stock which it may purchase before plan becomes effective, and which it does not retire and shall not be disposed of for any other purpose. Should company acquire an amount of bonds not exceeding $120,000 through the exchange of preferred stock purchased by it, Johnson, Lane, Space & Co., Inc. has agreed to buy any such bonds which Riverside Mills desires to sell at not less than $83.50 per $100 par value and accrued interest.

Purpose—For reorganizaztion.

Registration Statement No. 2-5165. Form S-1. (6-28-43).

SUNDAY, JULY 18

ARDEN FARMS CO.

Arden Farms Co. has filed a registration statement for 26,000 shares of preferred stock, without par value.

Address—1900 West Slauson Avenue, Los Angeles, Cal.

buying and selling of ice cream, the processing of milk, and the general business of buying and selling milk, butter, cottage cheese, eggs and various related products at wholesale and retail in the States of Washington, Oregon and California.

Underwriting—There are no underwriters. Company proposes through certain of its employees and through security dealers to solicit the exercise of option warrants, and the company proposes to pay the expenses of such employees in connection with such solicitation. If all such shares are not sold company will reimburse security dealers for their out-of-pocket expenses. If all such shares are sold the company will instead pay such dealers $1 for each share sold through the exercise of warrants procured by such dealer.

Offering—Company has granted to holders of its preferred stock, rights to subscribe for shares of preferred stock now being registered at the rate of one share for each 2½ shares held. Subscription price will be filed by amendment. After the expiration of the warrants the company proposes to sell such of the shares of preferred as are not subscribed through the exercise of warrants, to the public at such price as may be fixed by the board of directors of the company.

Proceeds—Net proceeds will be applied to the prepayment, so far as they suffice, of the company's notes outstanding in the principal amount of $1,050,000.

Registration Statement No. 2-5166. Form S-1. (6-29-43).

KEYSTONE CUSTODIAN FUNDS, INC.

Keystone Custodian Funds, Inc., has filed a registration statement for 100,000 shares of full certificates of participation, Keystone Custodian Fund, Series "B-2".

Address—50 Congress Street, Boston.

Business—Investment trust.

Underwriting — Keystone Custodian Funds, Inc., is named sponsor.

Offering—At market.

Proceeds—For investment.

Registration Statement No. 2-5167. Form C-1. (6-29-43).

KEYSTONE CUSTODIAN FUNDS, INC.

Keystone Custodian Funds, Inc., has filed a registration statement for 100,000 shares full certificates of participation, Keystone Custodian Fund, Series "K-2".

Address—50 Congress Street, Boston.

Business—Investment trust.

Underwriting — Keystone Custodian Funds, Inc., sponsor.

Offering—At market.

Proceeds—For investment.

Registration Statement No. 2-5168. Form C-1. (6-29-43).

KEYSTONE CUSTODIAN FUNDS, INC.

Keystone Custodian Funds, Inc., has filed a registration statement for 25,000 shares, full certificates of participation, Keystone Custodian Fund, Series "S-1".

Address—50 Congress Street, Boston.

Business—Investment trust.

Underwriting — Keystone Custodian Funds, Inc., sponsor.

Offering—At market.

Proceeds—For investment.

Registration Statement No. 2-5169. Form C-1. (6-29-43).

KEYSTONE CUSTODIAN FUNDS, INC.

Keystone Custodian Funds, Inc., has filed a registration statement for 500,000 shares of full certificates of participation, Keystone Custodian Fund, Series "S-2".

Address—50 Congress Street, Boston.

Business—Investment trust.

Underwriting — Keystone Custodian Funds, Inc., sponsor.

Offering—At market.

Proceeds—For investment.

Registration Statement No. 2-5170. Form C-1. (6-29-43).

CONSOLIDATED CIGAR CORPORATION

Consolidated Cigar Corporation has filed a registration statement for $7,000,000 ten year 3¼% sinking fund debentures to be dated July 1, 1943.

Address—444 Madison Avenue, New York City.

Business—Corporation and its subsidiaries are engaged in the business of manufacturing and selling cigars.

Underwriting—Eastman, Dillon & Co., New York is named principal underwriter. Others will be supplied by amendment.

Offering—Price to public will be supplied by amendment.

Proceeds—Net proceeds will be used to the payment of $1,000,000 face amount of notes payable to Bank of The Manhattan Company; $938,130 to redemption on or before Sept. 1, 1943, of outstanding 10-year 4% notes due July 1, 1950; $3,150,000 to redemption on or before Sept. 1, 1943, of 30,000 shares of its outstanding 6½% cumulative prior preferred stock at $105 per share, and $2,303,290 to redemption on or before Sept. 1, 1943, of its 20,939 outstanding shares of 7% cumulative preferred stock at $110 per share. Figures are exclusive of accrued interest and accrued dividends which will be paid out of corporation's general funds.

Registration Statement No. 2-5171. Form S-1. (6-29-43).

CALIFORNIA ELECTRIC POWER CO.

California Electric Power Co. has registered $16,000,000 first mortgage bonds, 3¾% Series due 1968, and 40,000 shares 5¼% convertible prior preferred stock, par value $100 per share.

Address—3771 Eighth Street, Riverside, Cal.

Business—Engaged in the generation, transmission, distribution and sale of electric energy.

Underwriting—Principal underwriter for the bonds is Dillon, Read & Co., New York, and for the preferred stock Stone & Webster and Blodget, Inc., and Bosworth, Chanute, Loughridge & Co., Denver. Other underwriters will be named by amendment.

Offering—Price of both bonds and prior preferred stock will be supplied by amendment.

Proceeds—Proceeds, together with funds received by the company from the sale of certain of its electric properties, will be used to redeem all of the first trust mortgage gold bonds, 5% series of 1956 to be outstanding after giving effect to the surrender of certain bonds in the face amount of $641,300. Balance of proceeds will be used to pay the balance then due on the 3% installment note held by Bank of America National Trust & Savings Association. Upon the payment of such note, $641,000 face amount of the company's first mortgage trust gold bonds pledged by the company as security for such note will be surrended for cancellation.

Registration Statement No. 2-5172. Form S-1. (6-29-43).

MONDAY, JULY 19

UTAH POWER & LIGHT CO.

Utah Power & Light Co. has filed a registration statement for $37,000,000 first mortgage bonds, Series due 1973. Interest rate will be supplied by amendment.

Address — Kearns Building, Salt Lake City, Utah.

Business—Is a public utility operating in southeastern Idaho, northern and central Utah and southwestern Wyoming.

Underwriting—The bonds will be offered for sale by the company pursuant to the competitive bidding rule of the Commission. Names of underwriters will be supplied by amendment.

Offering—Offering price to the public will be supplied by amendment.

Proceeds—Net proceeds, together with $3,500,000 to be received from Northwestern Mutual Life Insurance Co. from issue and sale of $3,500,000 face amount of general mortgage serial bonds of Utah, due serially 1949-1953; $3,500,000 to be received from issue and sale to certain banks of $3,500,000 face amount of serial notes, and such amount, if any, of general funds of the company, will be used for the following purposes:

To pay principal and interest to maturity, as the case may be, on Utah company's 30-year first mortgage 5% gold bonds due 1944, of which $28,119,000 face amount were outstanding at March 31, 1943.

To pay Utah Company's first lien and general mortgage gold bonds, Series of "4½s of 1944", of which $4,068,000 face amount were outstanding at March 31, 1943.

To pay Utah Light & Traction Co.'s 30-year first and refunding mortgage gold bonds, Series A, 5%, of which $11,813,000 face amount were outstanding at March 31, 1943, these bonds having been guaranteed as to principal and interest by the Utah Company.

Registration Statement No. 2-5173. Form A-2. (6-30-43).

TUESDAY, JULY 20

UNITED STATES PLYWOOD CORPORATION

United States Plywood Corporation has filed a registration statement for 15,000 shares of cumulative preferred stock Series A $100 par value, and 50,000 shares common stock, $1 par value. The dividend rate on the preferred will be supplied by amendment.

Address—616 West 46th Street, New York City.

Business—Engaged in the manufacture and sale of Douglas fir plywood, hardwood plywood and molded plywood, under its trade-name "Weldwood," and of fabricated airplane parts and other laminated and related products, and is also engaged in the purchase and sale of hardwood plywood, Douglas fir and other plywood, related sheet and laminated products and glue.

Underwriting—Eastman, Dillon & Co., New York, head the group of underwriters. Others will be named by amendment.

Offering—Price to public will be supplied by amendment.

Proceeds—Of the net proceeds $554,840 will be used to redeem 20,176 shares of preferred stock now outstanding at the redemption price of $27.50 per share. Balance of net proceeds will be used to meet the requirements of the corporation either during the present war emergency or thereafter.

Registration Statement No. 2-5177. Form S-1. (7-1-43).

(This list is incomplete this week.)

Municipal News And Notes

(Continued from page 123)

between 25,000 and 75,000 have post-war reserve funds. Clarksburg, W. Va., is operating on a balanced budget and reducing bonded debt, and such cities as Colorado Springs, Elmira, N. Y., Beloit, Wis., Henrico County, Va., Lynchburg, Va., Tucson, Ariz., Tyler, Tex., and Wilmington, N. C., have set aside special funds for post-war work.

Officials of practically all 62 cities of less than 25,000 are saving funds for deferred maintenance, creating reserves for capital improvements, paying off debts or otherwise putting their cities in good financial condition. At the present rate of redemption, Alliance, Neb., and Franklin, Va., will be debt-free by 1951.

Many of the smaller cities have put surplus funds in war bonds: Big Stone Gap, Va., $30,000; Cartersville, Ga., $50,000; Northampton, Pa., $30,000; and Springfield, Vt., $37,000. Four cities in Maine and California, three in Florida, five in Virginia and Michigan, two in Oregon, Illinois and Vermont and one city each in Ohio, Pennsylvania and South Carolina are building up reserves.

In addition to setting up a similar cash reserve for deferred improvements, Lynchburg has reduced its debt and is issuing no bonds; Port Arthur, Tex., already has voted a bond issue, but the bonds will not be sold until construction can be started.

Among cities amassing funds for utility extensions are Escanaba and Traverse City, Mich., and Webster City, Ia. Grove City, Pa., has set up depreciation accounts in all departments; Sturgis, Mich., is setting aside $1,000 a month for electric utility replacements and Coronado, Cal., has set up a capital outlay fund to replace worn-out equipment.

Several cities report tax limits make it impossible to build up reserve funds, and a few cities in Iowa, Oklahoma and Texas have no authority for establishing such reserves. Only five of the 62 cities of less than 25,000 have not taken steps to set up some kind of post-war fund.

INDEX

Grade Labeling Called Harmful To Consumers, Incentive-Destroying By Advertising Federation

The Advertising Federation of America, at its 39th annual meeting and wartime advertising conference in New York City on June 29, reaffirmed its belief in descriptive labeling of consumer products which honestly informs the prospective buyer regarding the product offered for sale and with equal emphasis renewed "its unqualified condemnation of proposals to require the use of government assigned grades on many articles of merchandise."

In a resolution, the Federation expressed its belief that "this old proposal now renewed under the guise of wartime requirements has been unfairly presented and is badly understood by the consumers who would be most harmed by it." The resolution continued:

"Contrary to the claims made for it by its proponents, mandatory grade labeling actually would:

"Regiment consumer buying habits;

"Kill the incentive to produce ever better quality products at lower prices;

"Destroy the consumer's freedom of choice; and

"Restrict the natural American trend toward ever higher standards of living.

"The Advertising Federation of America urges the widest possible spread of information concerning this subject, which is so important to the welfare of every individual in the United States."

In another resolution the Federation commended "those advertisers, advertising media, and advertising practitioners who have contributed so much toward making advertising an important force in the war" and urged "even greater concentration on those war tasks for which advertising has proved its unique competence."

The Federation, in another resolution, deplored the misuse of advertising which "reflects bad taste, vulgarity and wilful perversion of legitimate wartime themes" and intends to continue its fight on such practices.

Congress was urged in another resolution "to weigh the need for new legislation to clarify and make secure the freedom of communications against the possibility of capricious regulation." On this subject, the Federation noted "with profound concern" the recent supreme judicial interpretation that the Communications Act not only confers upon the Federal Communications Commission the power to supervise the traffic of radio broadcasting but also "puts upon the Commission the burden of determining the composition of that traffic."

Post-War Peace Plan Offered In Senate

A resolution proposing to put Congress on record for post-war cooperation to establish permanent peace was introduced in the Senate on July 2 by Senators Vandenberg (Rep., Mich.) and White (Rep., Me.).

The resolution is somewhat similar to the proposal of Representative Fulbright (Dem., Ark.), which the House Foreign Affairs Committee recently approved.

In Associated Press advices from Washington, July 2, it was stated:

Mr. Vandenberg told reporters he and Mr. White, as members of the Foreign Relations subcommittee considering several post-war peace preservation proposals, had acted independently of their Democratic colleagues in framing the resolution.

"Obviously," he said, "Congress cannot act on so important a matter before the summer recess, but we wanted to have this resolution before the public so that the people can be thinking about it."

The resolution as introduced reads as follows:

"Resolved by the Senate (the House of Representatives concurring) that this Congress favors (1) the prosecution of the war to conclusive victory; (2) the participation by the United States in post-war cooperation between sovereign nations to prevent, by any necessary means, the recurrence of military aggression and to establish permanent peace with justice in a free world; (3) the present examination of these aims, so far as consistent with the united war effort, and their ultimate achievement by due constitutional process and with faithful recognition of American responsibilities and American interests."

Tweedy Co. Formation In NYC Is Announced

Announcement is made of the formation of Tweedy & Co., with offices at 52 Wall Street, New York City, to transact a business in investment securities specializing in over-the-counter stocks and bonds. Partners in the firm are F. B. Tweedy and Joseph R. Reilly.

Formation of Tweedy & Co. was previously reported in the "Financial Chronicle" of July 1.

Bonner & Gregory Admit

Bonner & Gregory, 30 Pine Street, New York City, members of the New York Stock Exchange, will admit Edith A. Gregory to limited partnership in the firm on July 15.

Industry's War Record Answers Critics Of Its Effectiveness, Irving Olds Declares

The fine record of war production accomplished during the past three years by the American industrial organization, built up under a system of free private enterprise, belies "those critics who not so long ago questioned its virility and effectiveness," Irving S. Olds, Chairman of the Board of the United States Steel Corporation, declared on July 1. Mr. Olds made this assertion at a preview luncheon in Chicago of the Corporation's motion picture, "To Each Other," depicting some of the wartime activities of the steel company.

Irving S. Olds

Mr. Olds' remarks follow, in part:

"In June of 1940, the war in Europe and disturbing conditions in other parts of the world caused the United States to undertake a far-reaching national defense program. What was then contemplated assumes small proportions in comparison with the ever increasing plans for the prosecution of the war which have followed that shocking Sunday at Pearl Harbor. While the formulation of our country's defense and war programs has been a function of government, the fulfillment thereof has become the task of American industry.

"And how has American business acquitted itself of this responsibility? Despite hampering obstacles of one kind or another our industrial organization during the past three years has performed a wonderful job of production. American business has demonstrated a willingness, a determination and an ability fully to cooperate with the government toward the attainment of our common objective, the complete defeat of the Axis powers. The result of the loyal and tireless efforts of the experienced and efficient personnel, both management and workers, who direct and man the country's mines, factories and transportation systems can be found in the highly favorable change in the course of the war which has taken place in recent months.

"Gentlemen, this fine record of production has been accomplished because we had in the United States in June of 1940 a virile and effective industrial organization built up over many years under a system of free private enterprise —a system which has permitted the development of our national resources, the establishment of modern productive facilities, the training of skilled operating forces, and the attainment of a high standard of living. American business has truly come into its own and belied those critics who not so long ago questioned its virility and effectiveness.

"Chicago is an important center of the steel industry. Undoubtedly, steel constitutes the most essential material in modern warfare. All of us who are connected with the steel industry are justly proud of that industry's war contribution. Last year was one of record steel production—more than 86,000,000 tons of steel ingots were produced in the United States in 1942. The Steel Corporation's share in that total was 30,000,000 tons, perhaps an amount in excess of the combined steel output of Germany and her allies during that year.

"For more than two years the Steel Corporation's production has averaged in excess of 100% of its rated capacity for finished steel products. Its facilities have been materially revamped and extended so as to bring forth in increasing amounts various steel products needed by our vast war machine. This was an undertaking involving the eventual expenditure of more than $700,000,000, a large part being financed by the government."

Audibert Associated With Reynolds & Co.

Reynolds & Co., 120 Broadway, New York City, members of the New York Stock Exchange and other leading national Exchanges, announce that Xavier M. Audibert is now associated with them. In the past Mr. Audibert was a partner in Gude, Winmill & Co.

E. F. Waterman Forms Own Firm In Seattle

(Special to The Financial Chronicle)

SEATTLE, WASH.—Earl F. Waterman has formed Earl F. Waterman and Company with offices at 1411 Fourth Avenue Building to engage in a general securities business. Mr. Waterman was formerly an associate of Earl F. Townsend & Co.

Morris-Essex Interesting

The current situation in Morris & Essex offers attractive possibilities, according to a circular issued by Raymond & Co., 148 State Street, Boston, Mass. Copies of this interesting circular may be had from the firm upon request.

A. N. Young Co. Opens Branch In New York

Allan N. Young & Co., Inc., announce the opening of a New York office at 52 Wall Street under the management of E. W. Connell, formerly of Ames, Emerich & Co., and Schluter & Co.

S. W. Public Service Possibilities Interesting

Southwestern Public Service Company at current levels offers an attractive speculation according to a detailed memorandum discussing the situation prepared by W. Dameron of the Statistical department of Ira Haupt & Co., 111 Broadway, New York City, members of the New York Stock Exchange and other leading exchanges. Copies of this interesting circular may be had upon request from Ira Haupt & Co.