National Security Traders Ass'n
Hold Their Tenth Annual Meeting

Re elect Wm. Perry Brown
President For 1943-44

Members of the National Security Traders Association, Inc., at the closing session of their tenth annual meeting, held at the Palmer House in Chicago, re-elected Wm. Perry Brown, Newman, Brown & Co., Inc., of New Orleans, as President for the 1943-1944 term. They also voted a second term for Edward H. Welch, Sincere and Company, Chicago, as Secretary.

Other new officers elected:

Members of the Council are the officers, Thomas A. Akin, Akin, Lambert Co., Los Angeles, and Joseph W. Sener, Macku bin, Legg & Co., Baltimore.

Representatives of 23 local security traders organizations throughout the country cooperated in sponsoring the annual meeting, which was attended by approximately three hundred members. Carl H. Chatters, Executive Director of the Municipal Finance Officers Association of the United States and Canada, addressed a special municipal meeting and his paper titled "Municipal Finance In The Post-War World" was given in full in these columns. The address by Patrick B. McGinnis on "Railroad Securities In The Post-War Era" is also given.

On page 789 of this issue of the "Commercial and Financial Chronicle," which is the official publication of the National Security Traders Association, begins a special section devoted to the meeting of the NSA.

In This Issue

OHIO SECURITIES section containing information and comment pertinent to dealer activities on page 786.

For index see page 828.

"Railroad Securities In Post-War Era"

With respect to what is going to happen in the post-war era as to railroads, Patrick B. McGinnis, in addressing the National Security Traders' Association last week at its annual meeting in Chicago, undertook to indicate that current prices, if not stopped, will be followed by a "second, that by the regulation of competition the deterioration in the rate structure...will level out, and stop, third, that the reorganization of Class II carriers plus the debt reduction of the solvent carriers, will remove the financial risk by reducing fixed charges over 40% for the Class I railroads as a whole, and d. fourth, that the increase in efficiency of railroad operation today as compared with what it was 20 years ago has been tremendous." Mr. McGinnis, of Pfingfelder, Bampton & Rust, of New York, stated that "I have purposely labeled this talk 'Railroad Securities in the Post-War Era' because I think it is probably the hardest subject to discuss, primarily because it involves assumptions. If we talk about anything in the past-war era we have to make certain assumptions, and of course we cannot stop. Last year," said Mr. McGinnis, "and for the past several years that I have been talking about railroad securities, I have tried to avoid assumptions so that the conclusions that could be drawn could, to a certain extent, be proved. "For example, three or four years ago we said that the new RE (Continued on page 797)

The Future Of Interest Rates

With Special Reference To The Treasury's
Borrowing Policy

By BENJAMIN M. ANDERSON, Ph.D.

(Dr. Anderson is Professor of Economics at the University of California, Los Angeles. He was formerly Economist of The Chase National Bank of the City of New York. He is Consulting Economist of the Capital Research Company, Los Angeles, and is a member of the Executive Committee of the Economists' National Committee on Monetary Policy—Editor.)

I try to think that it is not possible to make a definite forecast either as to the time or as to the amount of an increase in the rates of interest. Prevailing rates are absurdly low in the light of all past experience. That the government should be borrowing many tens of billions a year without raising the rates is contrary to all past experience. On the other hand, that the banks should be able to lend tens of billions a year to the government is an unprec edented phenomenon. And that the combination of demand deposits and money in circulation should more than double since 1930 without precipitating a dangerous "flight from the dollar," is a phenomenon (Continued on page 799)

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Basic Report upon request

Bonds brokerage service

for Banks, Brokers and Dealers
Utilities Need a War-Time Moratorium on "Death Sentence"

By OWEN ELY

The public utilities of the United States have been effectively regulated by state commissions throughout most of their history... The District of Columbia and every state except Delaware has a commission, department, board or administrator to regulate utility enterprises, although those of Florida, Iowa, Minnesota and South Dakota have no jurisdiction over electric and gas companies. Thus, it is estimated that utilities serving 82% of our population are subject to this rate control. One of these commissions was dissolved in 1875, and over half of them prior to 1900. While it is difficult to summarize their regulatory powers, practically all of them have the right to control over rates and all but a few can regulate new security issues, mergers, etc. Less than half of them, however, have authority to regulate municipal plants.

While the Interstate Commerce Commission was formed in 1887, the first Federal agency to regulate the public services, the business of railroads is essentially inter­

Government Policies Tend To Inflation, Sykes, Head Of Inland Steel, Declares

The assertion that "if the Government deliberately planned inflation for the post-war period, it could not do a more certain job than it is doing," was made by William C. Sykes, president of the Inland Steel Co. of Chicago, and Chairman of the Post-war Committee of the National Association of Manufacturers. Addressing a regional post-war conference of the NAM in cooperation with the Federated Industries of the State of Washington, Mr. Sykes stated that "the way to mitigate inflation, of course, if you have turned loose too much money, is to make as much goods as you can as soon as possible." He added, "In all this we demand that the Treasury is draining away the post-war earnings needed for reconstruction reserves, and while the service departments of the armed forces are taking away such funds in recompenses!" According to press accounts from Chicago, Mr. Sykes went on to say: "Any now the Treasury is talking of increasing the corporate tax instead of casing it. If that continues, our otherwise proper return to peace-time operations may be crippled. We would have wage and job freezing, material priorities, price ceilings and ration books indefinitely. And we would also have with us massive unemployment and "made post-war" prices, to increase the money seeking goods that are not there and aggravating the inflation process.

"There can never be sufficient jobs until there is the payroll, and fair prices permit the making of more goods and services, still (Continued on page 810)"

Friday, August 26, 1943

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Goggeshall & Hicks To Admit Partners As of Sept. 1, Goggeshall & Hicks, of New York City, members of the New York Stock and Curb Exchanges, will admit Arthur A. Blatcher, Eugene S. Brooks, and Albrecht Paganette, 3rd to general part­

Dealers!

Actual Markets in Rails and Industries

SEE OUR LISTINGS IN "THE SHEETS"

G. F. Anderson With O'Welly Wagenseller (Head in The Financial Chronicle) LOS ANGELES, CALIF.—Clarence G. Anderson has become associated with O’Welly-Wagenseller & Co., 40 South Spring Street, members of the Los Angeles Stock Exchange. Mr. Anderson was formerly in the position of the trading department at Seattle and now operates a similar capacity with Banks, Hicks & Co. In the past he was a manager of the corporate trading department for William B. Stato. Stato.

Lamb To Be Partner In Ingalls & Snyder Dana S. Lamb will become a partner in the New York Stock Exchange firm of Ingalls & Snyder, 100 Broadway, New York. He was admitted on Sept. 1, 1929. He will be a partner in the firm of Marshall, Campbell & Co., which is dissolv­


American Mills Birmingham Gas, Wyoming Vy. Pub. Serv. 3-6, 1941

STEINER, ROUSE & CO. Members New York Stock Exchange 25 Broad St, New York 4, N. Y. Banner 5-770 Tel. 5-1151


Granbery, Marache To Admit Charles Greoff Charles A. Greoff, formerly a partner in Marshall, Campbell & Co., will be admitted to partnership in Granbery, March & Lord, 65 Broadway, New York City, members of the New York Stock and Curb Exchanges, on Sept. 1.

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Gouv. Dewey Declares Rights Of Labor
Abjured by War Must Be Restored

Says Regulated Economy Of War Must Be Succeeded
By Peace time Economy Of Freedom Under Law

Referring to the restraints by the National Government incident to the war, to which we have all willingly submitted, Gov. Thomas E. Dewey of New York, addressing the annual convention of the State Federation of Labor at Buffalo on Aug. 23 declared that "it will take vigilance and understanding to make certain that the wartime change in the relation of government to organized labor is not carried over into peace."

Mr. Dewey further stated that "the hard-won rights which have been acquired by these industries are as fundamental as freedom of speech and freedom of the press. Like other rights, they can only be restored intact to the people who have temporarily yielded them in the cause of freedom."

"We can be sure," he said "only if we make certain that the regulated economy of war is succeeded by a peace time economy of freedom under law. We can preserve this economy only when full production and full employment are maintained. For, 70,000,000 Americans must consume more than we produce."

In part, Governor Dewey also had the following to say: "Under the pressure of war we have all willingly submitted to restraints imposed by the National Government which are foreign to our most vital principles. In fighting total war, we have learned to mobilize our every resource and our every moment. A multiplicity of federal regulations has been promulgated, governing hours, wages and conditions of employment."

In large measure these regulations supersede the work of the collective bargaining. They have superceeded private management, and, in some cases, even taken plants away from their owners.

(Cautioned on page 828)

The 활용 of the 전문적인 인적, 재무적 인수요건을 파악하는 것이 중요합니다. 이는 확실한 성공을 이끌어내는 데 기여할 수 있습니다. 이는 영문을 이해하고, 정확한 사용을 할 수 있는 기본적인 전문적인 지식이 필요합니다.

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Pennsylvania RR.
Equipment Offered By
Halsey, Stuart & Co.


The certificates maturing from 1944 through 1953 are non-callable and are priced to yield from 0.5% to 2.00%, according to maturity. The certificates maturing from 1954 to 1958, which in the event of governmental restrictions interfering with the acquisition of the equipment are redeemable at the option of the company in the period March 1, 1944 to 1946, inclusive, at the face amount and accrued interest, are offered at prices ranging from 101 to 100. The approximate yields on these to the first call date, March 1, 1944, ranges from 0.25% to 2.25% and thereafter to maturity 2.25%.

These certificates represent the balance of an aggregate issue of $12,240,000 under the road's Series E Equipment Trust, a previous issue of $8,450,000 having been sold in February this year.

The entire Series N issue of certificates is to be secured by the following equipment—32-gallon rolling stock, to be constructed and acquired: five electric passenger locomotives, 51 steam locomotives and tenders, 10 steam locomotive tenders, six Diesel electric switching locomotives, and 1,000 composite gondola cars of 70-ton capacity. The total estimated cost of this new equipment is not less than $15,300,000, making the equipment issue an 8% loan.

National City Interesting

The current situation in National City Bank offers attractive possibilities according to a bulletin just issued by Laird, Binzel & Needs, 135 Broadway, New York City, members of the New York Stock Exchange. Copies of this interesting bulletin may be had upon request from Laird, Binzel & Needs.

St. Louis, San Francisco RR. Situation Interesting

An interesting report on the reorganization plan for St. Louis, San Francisco Railroad has been prepared by Raymond & Co., 148 State St., Boston, Mass. Copies of this report and a special letter discussing the outlook for rail reorganization bonds may be had from the firm upon request.

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Amerex Holding Corp. bought the interests of several companies for substantial consideration. These interests, while not disclosed, are of considerable importance, according to the company. Amerex, backed by the American Steel and Wire Co., won a controlling interest in the American Transportation Co., which is controlled by the Union Pacific Railroad Co.

It is unreasonable to anticipate a boom in general business, without a boom in the steel industry, according to an article entitled "The War’s Effect on the Steel Industry," featured in the current quarterly investment survey of Shields & Co., 44 Wall St., New York City, members of the New York Stock Exchange.

"Once numbered among the aristocracy of industrial securities," the survey states, "steel stocks and stocks least susceptible were a run on the Federal Reserve Board index, without a boom in steel as well."

The study states that the war’s effects will not apply equally to all steel companies and outlines the individual prospects for ten leading companies in this group. The companies are American Rolling Mill, Bethlehem Steel, Crucible Steel, Inland Steel, Jones & Laughlin, National Steel, Republic Steel, U. S. Steel, Wheeling Steel and Youngstown Sheet & Tube.

Littinoff Replaced As
Soviet Envoy To U. S.

The Soviet Government announced on Aug. 29 that Maxim Litvinoff had been relieved of his post as Russian ambassador to the United States and been replaced by Andrei A. Gromyko, Counselor and Charge d’Affaires of the Washington Embassy. This brief Soviet communiqué broadcast by the Moscow radio gave no explanation for the move.

Mr. Litvinoff returned to Russia for consultation in May but had been expected back at his post in Washington. He had served as ambassador to the United States since December, 1941.

Attractive Possibilities

Federal Water & Gas Company offers attractive possibilities at current levels, according to an interesting circular distributed by J. P. Kelly & Co., 111 Broadway, New York City. Copies of this circular may be had from the firm upon request.
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Railroad

Report of Reorganization Plan sent upon request.

Railroads

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Ohio Brevities

Sidney B. Congdon, President of The National City Bank of Cleveland, announced the appointment of George Bufton, former Assistant Secretary to the Treasury Department, as Mr. Congdon's successor. Mr. Bufton will take over as Bank President in January after Mr. Congdon's retirement.

Ohio Municipal Comment

The outstanding event of the month in the Ohio Municipal Market was the sale yesterday of notes and bonds for the State Teachers Retirement System. This fund received bids from all the major institutions involved. The sale of $950,000 in bonds between 1943 and 1948, with most of them due 1944-47. Altogether the list included 92 blocks ranging in size from $7,000 to $280,000 par value.

The lack of new issues in August is now of less concern as to the announcement of two or more large issues in a few days. The reason is that the market has now been accustomed to the idea of restrictions on new issues, and the result is that new issues are being sold at a fast rate.

Ohio Commerce

C. W. Mullen, President of the Cuyahoga County Bank, has resigned after a long career in banking. He has been associated with the Bank for 48 years, serving in various capacities, including Vice-President and Director. He was born in Cleveland and died in 1893. He leaves a large and old associate in the banking industry.

Oils & Co., Terminal Tower, Cleveland, Ohio, announced an interesting circular on National City Bank of Cleveland which they will be pleased to send upon request.

Cayne, Balston, & Co., Union Insurance Building, announced that they will hold late information on Oils & Co. Common on request.

The Weil, Roth & Irving Company, Dixie Terminal Building, have prepared an interesting circular for the benefit of the public. Copies of this circular may be had from the firm upon request.

Ohio Committee Named For War Loan Drive

CINCINNATI, OHIO—The United States and State Chairmen of the War Finance Committee, have appointed the following committee to raise the 13th War Loan:


Ohio State Bank Deposits Show Increase; Loans Drop

The report of W. L. Hart, Superintendent of Banks of Ohio, reveals that total deposits of the State banks in Ohio were $2,501,779,701 on June 30, 1943, as compared with $2,256,972,905 on Dec. 31, 1942, and $1,905,796,521 as of June 30, 1942. As of the same reporting date, U. S. Government obligations, discount and call loans by banks in Ohio amounted to $59,970,382, as of June 30, 1943, and $25,101,250 as of June 30, 1942.

Ohio Manna Co.

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Ohio SOCCURITIES

Field, Richards & Co.

Cleveland, Ohio.

Ohio Municipal Comment

We Buy Ohio Municipal Bonds

For Our Own Account

J.A. White & Co.

Cleveland, Ohio

We Buy Ohio Municipal Bonds

For Our Own Account

J.A. White & Co.

Cleveland, Ohio
Ohio Municipal Comment
(Continued from page 78)

Ohio Municipal

Ohio, in 1941, released by the Bureau of Agricultural Economics. This report is based on data reported by members banks of the Federal Reserve System located in places of less than 15,000 population. The report shows that the demand deposits in country banks of the servit corn belt states, in which Ohio is included, had risen to 30% of what such deposits averaged in the years 1924-29. A year earlier such deposits were 30% of the total.

Bond Sales Unaffected By Pay-Go Taxes

Secretary of the Treasury Morgenthau was reported on Aug. 19 to have said that new pay-as-you-go taxes have not interfered with proceeds of war bonds and to have expressed satisfaction with this situation. In July, the first full month of the withholding tax program, it was reported that bond redemptions totaled $138,484,000. This was slightly under redemptions in June, a quarterly tax payment month, when the aggregate was approximately $141,000,000.

N. Y. Stock Exchange

Weekly Firm Changes

The New York Stock Exchange has announced the following weekly firm changes: Joseph Witterman withdrew from partnership in the firm of A. G. (Hortons) Sons as of Aug. 13.


John F. Clark retired from partnership in Burgher & Hans at New York, as of Aug. 12. Mr. Clark made headquarters at the firm's New York office.

York Corp. Attractive

Common stock of New York Corporation offers an interesting situation, according to a memorandum issued by Peltason, Tenenbaum, Inc., Landreth Building, St. Louis, Mo. Copies of this memorandum may be had upon request from Peltason, Tenenbaum, Inc.

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To be due annually $316,020 on each March 1, 1944 to 1955, inclusive.

To be guaranteed unconditionally as to principal and dividends by The Pennsylvania Railroad Company

These Certificates are to be issued under an Agreement dated March 1, 1943, which provides for the issuance of an aggregate of $12,144,000 par amount of Certificates to be secured by new standard-gauge rolling stock, estimated to cost not less than $15,000,000.

NON-CALLABLE MATURITIES AND YIELDS

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Callable Maturities and Prices

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Interest and sale of these Certificates are subject to approval by the Interstate Commerce Commission. The Offering Circular may be obtained in full in which the announcement is circulated from each of the underwriters and other dealers as may legally offer such securities in each State.

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To be sold March 1, 1943, Privileged and enamelled dividends December 1 and March 1 payable in Philadelphia and New York City. Definitive Certificates to be issued in the denomination of $1000, representing as principal Certificates to be issued in $1000 denominations. The Offering Circular, referable to the opinion of the Railroad Company in the lower order of maturity, is on any divided date not less than 3 months after March 1, 1943, or before February 1, 1943. These Certificates are offered for delivery when, and as soon as received. It is expected that Certificates in temporary or delayed form will be delivered at New York, Cincinnati, Chicago, and Birmingham, and that certificates contained therein will be surrendered as to certificates of convenience or accuracy, it being agreed to at 1943.

August 16, 1943.

Volume 158 Number 4206
THE COMMERCIAL & FINANCIAL CHRONICLE
878

Municipal News & Notes

Tax relief legislation enacted for the benefit of serviciemen by the legislatures of several states includes a substantial number of measures favoring the property tax law. The Federal Reserve Bank of St. Louis Administrators reported August 10.

State legislatures granted real and personal property exemptions for contributions up to a certain amount or on conditions that items have been temporarily deflected from the homefront of all taxes until the war without interest or penalties. In many counties and municipalities, there have been tax delinquency requirement; and granted special privileges and immunities to the state owned by serviciemen or their families.

Several property tax exemptions of $1,000 were granted serviciemen this year in California, Idaho, and Nevada, while New Hampshire allowed exemptions of $500 for totally disabled veter¬ans, their wives or widows. New Hampshire in 1941 granted serviciemen exemptions of $1,000 on their property provided the taxable property was not worth more than $15,000. Mississippi made tax exempt the homes owned by men in the armed services, even though the homes were rented to someone else; Maine exempted the property of war veterans from all property taxes; Massachusetts exempted temporarily certain property belonging to residents serving serviciemen and their wives.

Michigan, North Dakota, Ohio, Texas, Virginia and Kentucky were among the states deferring collection of property taxes owed by services, until the end of the war, at the same time re¬laxed or increased insurance and interest on the taxes. Illinois and Iowa legislation in effect gave serviciemen the same relief.

To protect serviciemen's prop¬erties receiving homestead ex¬emptions from the states the Louisiana and Oklahoma, made service with the armed forces equivalent to tax delinquency by the serviciemen in receiving such exemptions. In this connection, Michigan, ex¬tended to veterans of this war homestead exemptions to veterans of World War I, a step taken by other states this year and in 1941 and 1942.

Several states took further steps to ensure that the tax benefits resulting from delinquency proceeding against their property, Arizona, for ex¬ample, enacted laws that a serviciemen's property will not be subject to the tax delinquency against the serviciemen.Tex. approved by a majority vote in the legislature and in the tax delinquency against the serviciemen. Tex. in Texas, the state will charge a limited low of annual income, the risk of fines for incompliance esti¬mates, it is essential that invest¬ors or brokers who wish to estimate investment income with income estimates. Huckle Brothers, 1329 Walnut St., Phila¬delphia, and 63 Wall St., New York members of the New York and Philadelphia Stock Ex¬changes, are offering a new serv¬ice to investors, whereby if they are provided with a complete list of investments, an analysis of the quarterly income expectations will be placed in the hands of the investor; a copy will be retained by the firm so that when, as, or if, change occur they may be charged with a serviciem's property and the latter will be notified in time to com¬plete the quarterly reports to the investors. Further information on this service may be obtained from Huckle Brothers.

Service To Taxpayers

Since the new law tax now re¬quires all individuals to make quarterly payments based on estimated income of annual income, with the risk of fines for incompliance esti¬mates, it is essential that invest¬ors or brokers who wish to estimate investment income with income estimates. Huckle Brothers, 1329 Walnut St., Phila¬delphia, and 63 Wall St., New York members of the New York and Philadelphia Stock Ex¬changes, are offering a new serv¬ice to investors, whereby if they are provided with a complete list of investments, an analysis of the quarterly income expectations will be placed in the hands of the investor; a copy will be retained by the firm so that when, as, or if, change occur they may be charged with a serviciem's property and the latter will be notified in time to com¬plete the quarterly reports to the investors. Further information on this service may be obtained from Huckle Brothers.

Situation of Interest

Road and Bridge Refunding 4% bond of the State of Missouri. By date of March 1, 1942, offer an interesting situation as tax exempt secur¬ities, according to a memo¬rum issued by the Bell, Roth & Irvin Company, Dixie Terminal Building, Cincinnati, O., members of the New York Stock Exchange. Copies of this memorandum may be had from the firm upon re¬quest.
Industry is helping win the war...
industry must help build a peacetime world

After the war is decisively won...
what kind of world is essential for a just and durable peace?

This question is being asked today everywhere in the world. No expert is needed to tell you the answer.

It must be a world as peaceful and neighborly as your own town; a world in which decent people can bring up their children decently. It must be a busy world where factories and farms are working and where there are jobs for all.

How can such a world be brought into being? The surest way is to think and talk about it. Full and complete discussions on the porches of this country, over its fences, in churches, schools, clubs, and always at meals—that is how the terms of A JUST AND DURABLE PEACE can be formulated.

In your discussions keep in mind this fact: your terms of peace must be such that the people of other lands can agree with them. There must be provision in your plans for sustained production and for consumption of that production.

Only a world peace that squares with the conscience of men of good will can be just. Only a just peace can endure.

THE INTERNATIONAL NICKEL COMPANY, INC.
Subsidiary of The International Nickel Company of Canada, Limited
New York, N. Y.
National Security Traders Association

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Wm. Perry Brown

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Lee J. Doyle
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Henri P. Pulver
Edward H. Welch
Ralph G. Randall
T. M. Walsley
Greetings From N S T A Officials Past and Present

JOSEPH W. SENER
A much brighter atmosphere prevailed at the annual meeting of the National Security Traders Association than was prevalent in 1942. Not only have our boys in the armed forces turned the tide but confidence in final victory and in the continuance of our system of private enterprise has had its effect in higher and more active securities markets. We all hope it will not be long before we hold our "Victory Meeting" when we will welcome back our cousins who are serving their country in all parts of the world. We can support them best by helping in any way we can in the "Third War Loan Campaign" next month.

J. GERTY DAGGY
The security business has been good and the immediate future appears promising.

WILLIS M. SUMMERS
It is a pleasant privilege as a Past President of the National Security Traders Association, to be able publicly to commend the present Officers for the work which they have done, and facilitate their successors elected at the annual meeting. I have had a deep interest in NSTA since its inception in 1934, and it is very gratifying to observe how the dual activities of social contacts and serious business have both been accomplished in a successful manner.

J. GERTY DAGGY
Meeting lacked in numbers, as contrasted with pre-war years, but every regular convention was held was fully compensated for by the enthusiasm and sincerity of those attending. Moreover, those at the front may be assured of the interest and support of the many of us who remain confined to quarters.

W. W. CRUTTENDEN
It is gratifying to all of us to note that, in spite of adversity active in its affairs and many of them attended the current convention. Congratulations are due them for the spirit that they generated and to those who have been carried on so well. I extend my sincerest good wishes to our members and my best wishes to the new officers for a successful administration.

EARL M. SCANLAN
Being Treasurer of the National Security Traders Association for the past year, has given me an opportunity to appreciate the work which the Association is doing not only for its members, but for the Industry as a whole. If more of us were acquainted with the efforts which are expended for the good of the Industry, I feel confident that we would have members from every firm in the United States.

Walter W. Cruttenden
It was my privilege to address the first group of Traders at their organization meeting in Chicago in 1934. The majority of this original group of NSTA are still

EARL M. SCANLAN
I want to take this opportunity of welcoming the new officers and wishing them, along with our Organization, the very best of success and good luck for the coming year.

B. WINTHROP PIZZINI
It was with a great deal of pleasure that I learned of my selection as an officer of the NSTA for the coming year. Our Association has become an impor-
Presidential Greetings

Patriotically the Tenth Annual Convention of the National Security Traders Association was cancelled and only the Annual Business Meetings and election of Officers were held at the Palmer House, Chicago, on August 20-21. Members in attendance, in the spirit of cooperation in the transportation problems of today, combined other business matters by making their travel to Chicago serve a multitude of purposes.

I can more fully understand the responsibilities of the office of President upon being elected for another term, because of the problems which came before me during my previous term of office. I was most fortunate in having an official family of excellent co-workers who did more than their part, aided by Chairmen and Committee men with foresight and energy. Again, I can truly say that I have with me for the coming term a group of Officers and Members of the Executive Council which can measure up to every qualification successfully to carry on the business administration of the Association. I am pleased to speak for these gentlemen and to say that your confidence will be upheld and that the Members of the NSTA will receive the best possible representation on all matters affecting the membership and the securities industry.

As long as this war continues the members of the National Security Traders Association have pledged their 100% support in the war effort. In the forthcoming Treasury Department drive the members of the NSTA will be found devoting the major part of their time to doing their part in bringing about the sure-to-come success so justly deserved. Many of our members are in the armed forces and it is our job unstintingly to give our all towards ultimate victory and to have awaiting for these men and women of our armed forces the America of freedom we cherish.

Loyalty to the National Security Traders Association by its members is more important today than ever before, likewise unity of purpose and the fullest possible cooperation is most necessary between the various Associations of the securities business. Much important business will come before the NSTA in 1943-44 and with the assistance of the Membership the Association will go forward to an even more important place than it holds at the present time in representing the securities industry.

Wm. Perry Brown, President
National Security Traders Association, Inc.

The Advertising Committee Thanks You

In behalf of the National Officers and our entire membership, may I sincerely express a most grateful thanks to all our advertisers andboosters for their contribution in making this special N. S. T. A. new edition of the Commercial and Financial Chronicle, the most successful number published, since the inauguration of the convention and news issued back in 1938.

The National Advertising Committee has been represented in over half of our affiliates and the results obtained are more than gratifying. This demonstration proves the possibilities for greater cooperation with your local and national advertising committees in giving the necessary financial support to your National Officers who represent us in various and broadening angles of our industry.

To our fellow member, Herbert Selbert, his solicitors and the entire staff of the Commercial and Financial Chronicle, may I extend in behalf of our membership our expression of sincere appreciation for the uniting and unlimited cooperation the National

Advising Committee received this year.

May the post-war era bring back our Convention Year Book.

Harold B. Smith,
Advertising Chairman.

We have an active interest in the following securities:

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Coca Cola Bottling Co. of Chicago
Deep Rock Oil
Federal Water & Gas
Iowa Public Service
Interstate Bakeries Preferred & Common
National Terminals
Peoples Light & Power $3 Preferred
Robbins & Myers Preferred & Common
United Public Utilities $2.75 & $3.00 Preferred

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Municipal Finance In The Post-War World

By CARL H. CHATTERS,
Executive Director, Municipal Finance Officers Association of the United States and Canada

Municipal finance in the immediate post-war period is likely to be greatly influenced by a tremendous rush to get on the public payroll which will be felt most in Federal and State Governments but considerably in local governments. Carl H. Chatters, Executive Director, Municipal Finance Officers Association of the United States and Canada, told members of the National Security Traders Association, Inc., at the opening of their annual meeting last week in the Palmer House, Chicago.

Reviewing the background of municipal finance as it may be taken as a guide for the future, Mr. Chatters declared that the revenue system used by municipal and local govern- ments has remained substantially unchanged since earliest days although it was designed primarily for an agricultural economy when most wealth was in the form of real estate and other tangible assets.

There is a growing resentment all over the country, he said, against the local property tax, the increasing volume of tax-exempt property, including that publicly owned, and the decay of the central city areas. The property tax is resented more and more by owners of real estate because the tax does not reflect the ability to pay, he said.

"No longer can owners feel that increasing property values justify government creation of market real esti- ate at a loss."

But the greatest menace to public finance and private property values of large cities lies in the utter decay of their central areas accompanied by falling property values and the movement of people to suburbs, he pointed out.

Turning to post-war possibilities, Mr. Chatters continued: "If price inflation follows the war and our present local tax structure remains, there may be some financial difficulties because salaries and wages of public employees would necessarily in- crease as would commodity prices. The amount left for debt service would be too small—as it was from 1930 to 1935—and there would be defaults and delays. Further, the Federal debt would have to be paid if levels of wages and prices and taxation were lowered. It should not be naive enough to think that public works alone will solve the unemployment problem in the post-war era,"

Mr. Chatters told the security traders he doesn't expect a flood of municipal bond issues comparable to pre-war levels "unless the Government creates a market for these as it did through PWA and RFC." He financially hopes to see a change in the revenue system so that industrial cities and all large cities may levy revenues responsive to local community income instead of revenues based primarily on capital values.

"Some American cities are headed for trouble if there is any substantial decline in business. These cities have been financing instead of paying off debts and therefore their ability to pay off bonds coming at unfortunate times," he added that in the post-war period he expects to see a further development of revenue bonds and that there also may be a tendency to make municipal bonds payable from all municipal revenues instead of being paying solely from ad valorem taxes. He said he was in favor of the change.

Mr. Chatters' address in full text follows:

I. Introduction

You have asked me to face into the crystal ball and tell you what it portends for municipal finance in the years immediately following the war. But the ball which seems to get bigger becomes cloudier as you inspect it too closely. So let us look away from the ball to the clear plate glass windows of the past and the slightly fogged windows of the present. Perhaps this view of the past and present will sharpen our eyesight for a glimpse at the future.

Municipal finance may now be studied intelligently only when related to the entire economy of the country and to the finances of other governmental agencies, Fed- eral, State, and local. But you cannot look at financial data alone when you want to forecast the trend of municipal finance. The vast social and economic changes in our country have been the principal factors in amending the nature and scope of local govern- ment financial problems and these social and economic move- ments may have even more influence in the future than they have had in the past. Let me name just three things to illustrate.

The greatest expenditures of local government are due to the philosophy that everyone must have as much education as possible, to the invention of the automobile and to the modern ideas with re- spect to care for the ill; the unemployment and the aged. What a transformation of local expenditures has taken place be- cause of this one physical contrivance and these two social ideals!

Now look out the plate glass window at the past.

II. The Background of the Past

Fifteen years of growing federal relationships to municipal finan- cial affairs, vastly increased state revenues, and superficially improved local finances, are just be- hind us.

The above is illustrated by the fact that expenditures from federal emergency relief appro- priations from April 8, 1935, to January 4, 1942, amounted to $15,000,000,000, of which $1,000,- 000,000 was spent in Illinois and $1,750,000,000 in New York. Think of the tremendous effect on local government of such ex- penditures when it is realized that most of the expenditures were in the form of payroll.

A hodge-podge of governmental activity and government revenue sources has developed between the federal, state and local levels with little relationship between the unit of government as- signed to carry out an activity, and its ability to raise revenue to do so. Whether it is appropriate for a given unit of government to do a job or collect or receive a certain type of revenue is seldom considered on a rational basis. Formerly each activity was rather definitely assigned to one level of government, while at the present time many broad functions of government are carried on by all levels of government and many revenue sources formerly collected by only one type of government are now collected by several.

The revenue system used by the municipal and local governments today has continued substantially unchanged although it was designed for an agricultural economy and for an economy where wealth was in the form of tangible property; real estate as well as other goods.

In the more immediate past, municipal finance has seen a de- crease of improved tax collections, decreasing state and local debts, but there has always been a hope- ing that a crisis is just at hand. Most cities have improved their financial position since 1932 but there are many others which are still losing and its ability to raise revenue is continuing. It is now realized that many cities have in 1942 a population median year-end tax delinquency was...
volume were financial us? carefully to municipal expenditures. The future expenditures of municipalities will be influenced by the economic situation and a better place to live. If the economic situation improves, the consequences of these desires come about, the finances of all levels of government will be changed. Directly in the field of municipal finance there are important factors including the development of public "authorities" and the more extended use of trust funds. The government must be prepared to prevent abuses of either. Municipal authorities, for instance, have been extended to the municipality. Municipal bonds have greatly decreased as you know. Sales of new bonds reached $2,495,000,000 in 1943, which was an increase of about a quarter of a billion dollars. In 1930 were about $3,100,000,000. If you advance $3,750,000,000, $2,000,000,000, $1,000,000,000, $500,000,000, $250,000,000, and $100,000,000, we have a decrease. The assessed valuation in 1933 of property in the city of Milwaukee, according to Dr. C. E. Merriam, h i g h l y generally around the simple question, "What are urban functions under modern conditions?" if we were free to answer that question we could control the future with greater accuracy. For when new tasks are added to our municipalities, the need for financing becomes a greater and the administrative machinery more complex. What is the job of a municipal government now? What should cities do after the war?

Here are some plain conclusions, at price inflation follows the war and our present local tax structure remains. There may be some financial difficulties because salaries and wages of public employees would necessarily increase, which would be a smaller tax, as it would be in 1933, and in the same period of time. The federal government must be prepared to prevent abuses of either. Municipal authorities, for instance, have been extended to the municipality. Municipal bonds have greatly decreased as you know. Sales of new bonds reached $2,495,000,000 in 1943, which was an increase of about a quarter of a billion dollars. In 1930 were about $3,100,000,000. If you advance $3,750,000,000, $2,000,000,000, $1,000,000,000, $500,000,000, $250,000,000, and $100,000,000, we have a decrease. The assessed valuation in 1933 of property in the city of Milwaukee, according to Dr. C. E. Merriam, h i g h l y generally around the simple question, "What are urban functions under modern conditions?" if we were free to answer that question we could control the future with greater accuracy. For when new tasks are added to our municipalities, the need for financing becomes a greater and the administrative machinery more complex. What is the job of a municipal government now? What should cities do after the war?

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The commercial & financial chronicle

Municipal Finance in The Post-War World

(Continued from page 798)

After the war they were before, or they may be delayed by unemployment.

Some cities will be in trouble if there is any substantial decline in business. These cities have been refunding instead of paying off debt and they may have peak maturities of bonds coming at unfortunate times. The number of such cities is not great but it includes some rather large and substantial communities.

While I do not mean to imply that they will be in trouble, it does seem that the largest cities—maybe our 50 or 75 largest—will be more vulnerable than the smaller places in the period after the war, particularly in the transition period. This will be due to the accumulated decay in the larger cities and to greater hazards of unemployment in the larger cities.

Municipal finance in the post-war years will be greatly affected by the tremendous pressure for employment on public payrolls. The pressure will be greater at the Federal and State levels but plentiful at the local level. The Federal Government has hundreds of thousands of civilians workers "for the duration and six months." Will they willingly go back when these thousands of veterans return to the public positions they left to enter the armed forces. Will the person who did their work return? Other veterans will press for public jobs with "veterans' preference." Urban veterans will, as an entering wedge. Some Federal employees can properly return to State and local governments. (The college professors may return to their teaching!) There will be actual need for labor. In large measure the public construction and maintenance that has been done by war, Reconversion subsidies may help. And finally, the whole scheme of industry for full employment may be developed fast enough to relieve all these pressures. I am trying to point out that municipal expenditures may be greatly increased by the pressure for employment. If the pressure is too great, will the increased cost be financed by borrowing or from current revenues? Anyway, you watch it.

After the war I would expect to see a further development of the use of revenue bonds. There may also be a tendency, and I think there should be, to make municipal bonds payable from all municipal revenues instead of being payable solely from ad valorem taxes.

Presently outstanding municipal debt will be paid in the post-war era as well as they have been in the depression era. I think it will be better, probably better, because there are less bonds outstanding at the time of the earlier defaults. Unless revenue bonds are abused there should be no large-scale defaults by particular classes of bonds comparable to special assessments in 1930 and the years following.

The Federal Government may be successful in its efforts to create municipal bonds. New markets would have to be found for the securities. What this market would be I cannot say. I have no knowledge of its size.

Two important policies would help municipal finance. First, there must be no conflicting financial policies of the Federal, State, and local governments, so that the acts of one will not nullify the acts of the others. We were told that the war had been a test of the efforts of the Federal Government to create employment through public works was just a test, just preliminary employment of work by State and local governments. Perhaps their finances dictated such a policy—if so, then financing of post-war improvements deserves consideration now.

Another very desirable policy would be to exercise control over the development of land. Orderly development cuts the amount of the capital investment by municipalities. Likewise orderly development cuts operating costs because it would not be necessary to serve scattered areas. All-and-all financial requirements are unnecessary capital outlays and exaggerated operating costs. Why permit them?

The war may be the opportunity to make highly desirable changes that could not be obtained in normal times or may be used as the excuse for "clappy" work. All of us with an interest in municipal finance should use the war as the means of getting better laws, eliminating harmful practices, cutting dead wood, and generally putting our municipal house in order. Your group can do much if you wish to do so.

Finally, may I mention post-war planning for municipal finance. These are not new topics. What municipalities do now determines what they will be able to do or will be compelled to do in the post-war era. Municipalities which weaken their financial structures now must inevitably spend the post-war period "burying dead horses" and trying to get out of the hole. That is inevitable. A municipality with no careful plans, but lets its finances drift into difficulty, has just as certainly made its plans for a future that is dark. But a municipality that takes constructive steps now will be in a position to carry out whatever plans the post-war era requires. So I say the best way to plan for the post-war era is for municipalities to do the things that are sound and constructive financially. In that way they cannot lose.

L. Owens & Maj. Blizzard at NSTA Meeting

Among the visitors from the Armed Forces were Lt. Colonel Kenny Owens of Camp Grant, Ill., and Mrs. Owens and Major Herb Blizzard of the Air Force.

Wood, Gundy & Company
Incorporated
14 Wall Street - - New York

Greetings From NSTA Officials Past-Present

(Continued from page 799)

The post-war era will bring several officers who have been influential in the past. The officer who brings a program which has proved itself over a period of years to be an integral part of our industry also have had an opportunity to prove their ability in cooperation with the fellow members for the trust which they have placed in me; and will do everything within my ability to promote and uphold the standards of the NSTA.

Russell M. Dotts.

EDWARD H. WELCH

Entering its tenth year the National Security Traders Association with the rest of the nation is facing the vicissitudes of war and is fitted within its framework to the fullest extent of our ability. Many of our members are in the armed forces and those of us on the home front are devoting their time and efforts to raising the war loan drives and in governments

Edward H. Welch.

with and serve our country when called upon to do so, and our whole hearted support in the recent bond drives and in continually urging the purchase of Government securities.

I would be remiss in my duties if I were not to pledge myself to the continuation of the splendid administration of economy and progressiveness, such as we have experienced under the capable leadership of William Perry Brown, to whom I promise to give my whole heartfelt support during the coming year.

It is with the deepest sense of responsibility that I will endeavor to show my gratification to my fellow members for the trust they have placed in me; and will do everything within my ability to promote and uphold the standards of the NSTA.

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Russell M. Dotts.
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The Securities Business In The Post-War Period

BY W. W. TOWNSEND
Towson-Skinner & Company, New York
Author of "Bond Salesmanship" and "Wall Street at Close Range"
Lecturer on "Bond Values" in Columbia University
School of Extension

This discussion should be prefaced by a disclaimer, quite in the spirit of the times. It is not a prophecy. It does not purport to be a post-war "plan." It is merely an expression of some opinions and convictions which have had as long an active participation in the securities business, with practical which since has become a mere enjoyable vocation—as often proves to be the case. It is based not on theory but on the observation and appraisal of things which already have happened.

To begin, therefore, there will be a securities business after the war. It seems strange to have to say that but there are plenty of those who have some doubts about it and who express those doubts on every occasion. It will not be as awe-inspiring as in the mauve decade, as careless as in the early 1930s, as glamorous as in the post-World War I period, as completely cock-eyed as in the late 1920s, as discredited as in the 1930s nor as chastened as in recent years. But, nearly anything can be stated regarding the future with complete confidence, it can be stated will be longer than the war period. The securities business will continue to be an indispensable part of high places and an absolutely necessary adjunct to the activities of others, especially the Federal Reserve Banking System which is now the history with every one of the typical syndicate manager's problems. But we started out to talk about the post-war period and all we have done so far is to keep the securities business alive—and barely alive—until the Government no longer needs to have it around. Well, the answer to that is even simpler.

Capitalism will also be part of the post-war American way of life. It, too, may look a little different from the capitalism which has been the wolf in every Red Riding Hood fairytale—connected by every other "lamb" ever started, but it, too, will be "there"—not because Wall Street succeeds in accomplishing its nefarious purpose, nor because the Republicans have "thrown the raccoons out," not even because we have decided to reestablish a capitalistic country but simply because we have become a nation of capitalists. Wall Street will be too busy carrying out the orders of these capitalists to have much time for politics.

The other day one of the weekly News letters produced a gem of oversimplification by stating that the greatest syndicate manager who has something to conserve. If global strategy and ethnic democracy had not given all of us more than a touch of cosmic consciousness we might be able to classify a liberal as somebody who wants to help the conservative conserve that "something" and a radical as somebody who merely wants it. Time was when a liberal thinker was merely broad-minded, a liberal spender limited himself to his own money and the only change the radical wanted was a political change. However, if oversimplification is in order—and it may very well result from current overconcentration—certainly a capitalist would be somebody who has some capital. Therein lies the answer to capitalism in post-war America.

We went into the last war with perhaps a half million investors. We came out of it with several million investors. Does anyone doubt that we will come out of this war with many times several million investors? It may take some time for our new crop of capitalists to realize that the only difference between them and the Capitalist in the Red Riding Hood fable who once believed in simplicity in the difference between the upper and lower case "C" but that actually will be about the only difference. And that job of education is Job Number One for the securities business in the post-war period.

Job Number Two is the "police" job which the business should have started itself but which it alone can finish. Of that it needs only to be said that the earlier Roosevelt put his finger on both the problem and his solution when he coined the phrase "Jurassic Fringe." But no matter how the start was made and how it is being carried forward it must be admitted that something had to be done—and it is the everlasting credit of such organizations as the National Association of Securities Dealers that they have recognized that fact and are doing an excellent job of house cleaning on their own responsibility.

Job Number Three is to handle the "wash" back and forth between the millions of small and large Government Bond holders without succumbing to temptation to make the "tradecuts" which contributed in no small degree to the market break in such securities right after World War I. That is a part of the policing job and it could very well be started now.

Job Number Four is the most interesting job of all. It involves financing the reconstruction period, the promotional period and the pioneering period all of which are as sure to develop as the sun is sure to rise. Some of this will be done by Government, some of it will be done by the banks, but a large part of it will be done by private enterprise, private capital and the good offices of the securities business in bringing them together very much as in the past war and yet, in all probability with some "additions, extensions, betterments, and improvements."

We have been monetizing our

(Continued on page 811)
"Railroad Securities in Post-War Era"

(Continued from first page)

Securities created by the reorganiza-
tion of the various companies were better than the junior se-
curities of the unorganized com-
panies, for obvious and easily
provable reasons.

"However, today the public is
judging railroad securities—the

good ones, the so-called frontier
ones, the reorganized ones—
as war babies, and it is with this
psychology that we now have to
complete as dealers and as inves-
tors in railroad securities.

"It has been built up, I think,
more from the historical past in
railroad securities than from the
fact that the war has naturally in-
creased the earnings of railroads.
You see, railroad securities for the
last thirteen years, let's say from
the last ten years prior to 1914, were
subject to the fear of bankruptcy.
That thing was not the cause, but
that was the thing that gave rail-
road securities a bad name. And
that reputation still continues.

"They say railroad securities
are war babies, yet in order to be
war babies they must have dis-
counted the effects of war.
"I claim they have not, for rea-
sons that I shall develop in a few
minutes. But in any event, I think
the primary reason for that so-
called reputation has been the his-
torical record of ten years, from
1895 to 1905, when 33 rail-
roads entered bankruptcy.

"Another thing I want to say at
the beginning is that I am talking
to you about railroad securities,
but I am also assuming that you
and your customers are going to
sell those securities, because I
mean industrial stocks or utili-
ties or industrial bonds or
utilities.

"If you have clients 100% in-
vested in cash or municipalities
or
governments, what I have to say
will probably be of academic in-
terest. Therefore, I am trying to
point out in the beginning that we
should stop looking only at rail-
roads.

"You would think, the way peo-
ple talk, that the railroads have the
only problems after the war,
and the industrial stocks and utili-
ties will have none. I don't think
that is true. So I make this

suggestion at the beginning. Look
at railroad securities comparatively
with other securities, and when I
talk to you I assume you own
some kind of corporate securities.

"Another thing is that my pre-
dictions I make are limited to the
foreseeable future. How long
that is I don't know, and it is
pretty hard to say definitely. But
we have found in the last ten
years that there is no such thing
with the exception of government
bonds, as a permanent investment.
So I am not going to predict that
it is going to happen to railroads
twenty years from now, because
to me and to you I think it is
somewhat academic. But I am
going to try to predict the future
over the foreseeable outlook for
railroads.

"Another thing I find through-
out the country that almost all of
those interested in rail take a
negative stand and try to defend the
tails. I have always been willing to
change that to a more aggressive
spirit, and I hope this article will add
little food to the story and perhaps
put down this terrible sales resist-
ance against rail generally.

"Another fundamental to start
with is that you are supposed to
picture that if you compare the
railroads with your various other
industries—well, if I can put it
away. Last week I said, "Suppose
you owned industrial stocks; sup-
pose you wanted to buy some in-
dustrial stocks. Which ones would
you buy, and why?"

"So I went back through the
years 1927 to 1934, and I listed
all fixed charges both in the rail-
road industry and in those other
industries. I ask, "How does the
railroad industry as a business
risk compare with the other in-
dustries?"

"Take for example all the steel
manufacturers in 1934—these
figures are from the SEC compre-
hsive reports on listed securities—saved 1 cent out of each dol-
lar. 1924 was not a good year
for railroads; it wasn't the worst
year, but it was not a good year,
and yet in 1934 the railroads saved
20 cents out of each dollar. The au-
tomobile manufacturers in that
year saved 7 cents; the motion
picture industry saved about 7
cents; the sugar refining industry
saved about 6 cents; mail order
houses saved 3 cents; agricultural
machinery, 10 cents; department
stores, 3 cents. The only industry
is that group of about forty major
industries which competed with
the railroads in the amount saved
was the chemical industry.

"That percentage follows right
along in 1925, 1926 and 1927. So
I repeat what I have said many
times before, that as a business
risk, even in the worst years of the
depression, there was nothing
wrong with the railroads any
more than with the other industries. The blight that
licked them, of course, was the
tremendous amount of fixed
charges.

"Take some of those statisti-
cal which I just gave you a little
more detail, all your automobile
risk, that $2,000,000,000 or more

The railroads did a gross business
of $4,100,000,000. However, the
amount saved by the railroads
in 1927 was 17.5%, or $474,000,000.
The automobile industry, in the
meaning, saved 19%, or $340,

200,000. In 1934 with a gross of $3,200,

000,000, the railroads saved $864,

000,000, or 26%. The automobile
producers, with a gross business
of $1,300,000,000, saved $111,000,

000, or 9%.

"The steel industry in 1934 did
a gross business of $2,300,000,000.
The railroads had a gross business
of $2,000,000,000. The railroads
saved $666,000,000, or 26%,
and the steel industry saved $120,

000,000, or 5%.

"In 1927 the steel producers did
a gross business of $2,800,000,000
against the railroads' $4,100,000,
In that year they saved $220,000,000, or 8%, and the rail-
roads $475,000,000, or 17.5%.
"I repeat, then, that in my opin-
on the railroads, by comparison
with other corporate securities,
are good business risks provided
the financial risk has been re-
noved.

"Subsequently I tried to de-
velop the fact that this peculiar
fear of bankruptcy which was in
the railroads and not in the steel
industry, the automobile pro-
ducers, and so forth, is the psy-
chology that makes them now
walk around the stock of a
company which was not unorgan-
lized, like Southern Pacific, how-
can it sell a $25 share, earn $25
and pay only $2, and be called a
bad buy. "There must be some
fear that after the war you have a
bankruptcy possibility on your
hands."

"Now, if Southern Pacific were
selling at ten times earnings, at
$250 a share, if the directors were
paying $13 out of the $25 that they
were earning, then I would agree
with the public that perhaps
there should be a danger of hav-
ing discounted war earnings. But
I do think the fear the public has
that railroads is false, because as I
will show you in a few minutes,
in my opinion there is no danger of
bankruptcy for any Class I rail-
roads not now in bankruptcy, over
the next five, six or seven years.

"And if that is so, then the pres-
ent prices of railroads are overly
discounting war earnings, but a
future which in my opinion they
will not have.

"Railroad credit has had a bad
history as I have said. Up to
1931 railroads, generally speaking,
were subject to buying by most
of your industries, banks and
insurance companies. For 15
years that was the only market
for railroad securities, because the
investment houses could not be
bothered calling up individuals to
buy railroad bonds when they
knew that the institutions would
buy them.

"Then, all of a sudden, over
the last ten years, that only buyer
was prohibited from buying and he
became a seller. As a result
you had prices, and still have prices, at extremely low levels for
the very simple reason that you
have more sellers than you have
buyers.

"However, that fact alone creates
that position where those who
can do something about it, should
because as the situation changes
from bankruptcy to solvency, as it
did in the Wabash and the Erie,
perhaps, that same course may
again come back in the market and buy the first call put on the bonds and the
nene bonds of the reorganized
companies.

"So you recreate the situation
(Continued on page 798)
"Railroad Securities in Post-War Era"

(Continued from page 797) where you have more buyers than sellers, and during that period, the range between securities in bankruptcy and securities reorganized to a new company on a solvent basis, you have that tremendous appreciation in price which I have referred to many times as mechanical profit.

On building up this story of what is going to happen in the post-war era, first I am going to point out to you a few reflections and try to indicate that current prices, first rates, are not too high; second, that by the end of 1921 the new competition and the deterioration in the rate structure, which started earlier, will level out and stop; third, that the reorganization of Class 1 carriers, plus the debt reduction programs of the solvent carriers, will remove the financial risk by reducing fixed charges over 40% for the Class 1 railroads as a whole.

Fourth, that the increase in efficiency of railroadroading today as compared with what it was 20 years ago has been tremendous. Perhaps this competition and the poor period of the railroads financially during the years 1909 to 1940 was a blessing in disguise in that it hastened the transition to modern railroadroading never before known.

And last, but not least, as I said in the opening, the railroad problem after the war is not going to be greater, and I think actually less, than that involved in many great many other industries.

On the question of what price range these railroad securities are in now, they are now selling in the low 30's. The low in the Dow-Jones average was 18 in 1921. In 1932 the railroads did not earn their fixed charges, and obviously as a group earned nothing on stock. Last year the railroads earned their fixed charges before Federal income taxes over three times, and they earned, on the average, about $10 per share on stock.

"Now, are the Dow-Jones stock prices discounting war earnings?" In my opinion, no. In the last war, with the Government running the railroads, with all kinds of rate and wage uncertainties, the Dow-Jones average in the years 1918 and 1919 ranged 74 and 89 high.

"Second grade bonds, Dow-Jones averages, are now selling around 60. The high in 1937 was 86. Are they discounting the war earnings, selling 30 points below? 5% bonds selling at 60, yielding 8% and 8 1/2%. What are they discounting? They are discounting a possibility of bankruptcy. There is no question about it.

"And I claim there is no danger of bankruptcy, because they let the income bonds of the reorganized companies, like Erie incomes, and there is actually no danger of a bankruptcy, sell to yield 8%, 9% and 10%.

"In 1929 the high in the Dow-Jones rail averages was 190. In that year they did $5,000,000,000 gross business. Today the stock market averages for rails are selling at 35 or 34 while the roads are doing close to $5,000,000,000 gross.

In 1938 the Dow-Jones averages sold at 34, with $5,000,000,000.

"Take Rock Island, for instance, selling now $2,500,000,000, including equipment, because equipments are usually paid off through amortization of equipment or cash account, anyhow.

"Rock Island securities, a par value of $221,000,000 are selling in the open market at $175,000,000. And yet the cash which the trustee has calculated he could get to (before the end of the year) $29,000,000, close to $35,000,000, this year probably $40,000,000."

Are they discounting war earnings? No. Let's say you pay $100,000,000 for Rock Island. If you made $5,000,000 or $50,000,000 per year, you would be doing better than the railroad industry has done in a long time, with the exception of these war years. Yet that would only mean the production of $9,000,000 out of the Rock Island management.

"So I say that these prices are not discounting war earnings. They are discounting the most dismal future for the railroads that you ever heard of, not only in defaulted bonds but in your borderline ones. If there is no danger of a bankruptcy, you can buy an income bond to yield 8%, and you get that income for a very low price which was not reorganized on 8% or 9% basis, you have virtually no risk if there is no danger of bankruptcy.

"Sure, they will fluctuate; but so will everything else fluctuate. American Telephone does not get price; it ranges 40 or 50 points in the course of a year for a prove that proves a decline was the primary reason for this change in the railroad industry."

"Take two years period, 1928 and 1941, and note the railroad business was about the same, measured in ton-miles, around $120,000,000,000. Yet the great jump in 1928 was $60,000,000,000 and for the 12 months ending September, 1941, it was $40,000,000,000."

"Now, if railroad management were not able to absorb that decrease, it would be a failure in every on of efficient methods, otherwise if their management, they would have been much more conservative; they would not only not have covered their fixed charges, but they would have had to pay dividends out of tremendous proportions. In 1928, if they did not lose a billion dollars doing it, they are making a tremendous profit on the basis; their gross was off a billion dollars, the cost for two comparable periods.

"The net railway operating income was $1,200,000,000 in 1941, for the 12 months ending September, 1941, the net railway operating income was $950,000,000 absorbed all but $100,000,000."

"How did they do it? In hundreds of ways, but I am not going to be any: more, of course, by these: improving efficiency, reducing costs, transportation, expenses alone by $113,000,000. Understand, now, they are doing the same business, and yet the cost was reduced by at least $113,000,000.

"They reduced transportation expenses alone by $113,000,000. Understand, now, they are doing the same business, and yet the cost was reduced by at least $113,000,000."

"Sure, they have had an average of 1,060,000 men; in 1941, for the 12 months ending September, 1941, they employed 1,140,000 men. In other words, the railroad industry with the use of $200,000,000 less men you know you are going to ask: 'How about the compensation?' They have reduced it by the fact that they did not have $2,500,000,000; in 1941, for that period, they had $2,500,000,000 less in that section."

"If you see these figures analytically talk (and it has been true in many cases that the good ones but the questionable ones) that the railroads are under the additional handicap of not being able to control the industry generally."

"Don't you believe it? Railroads are in a better position, in my opinion, and I can prove it in detail if you want to hear it, but industry generally.

"Managements; therefore, helped to absorb this rate decline. Well, we did not have it all the railroads? For reasons that I will tell you about.

"If you look at these figures, you see the trend of 137 Class 1 railroads, but if you have seen them for 15 years, you have heard me say that 10 railroads do about 35% of the business and 90 railroads do about 65% of the business. So, in figures at the scale of the railroad industry, I use these 56 railroads.

"Of these 56 railroads, 18 of them are doing about 38% of the business. They are coming through the depression as the other 38, and if they were asked if they come through the depression and retained their credit.

"Railroads such as the Atchison, Topeka and Santa Fe, Union Pacific and others. Twelve of them come through the downturn. The business became borderline, illustrated of the Illinois Central, Northern Pacific, Southern Pacific. Twenty-six 1938 and 1941, the railroads came through the depression. They were all subject to that, and it was not a question of the industry, and they were also subject to the tremendous efficiency management.

"All right, then, did they the 18 of them become borderline, and 26 of them go up? No, the management was able to absorb the decline in the rate structure. That was the reason, of course, that they are saving the 18, but I have to ask that.
of savers. They have talked about the gold reserves of the Bank of England, the inflow and outflow of gold, the prospects of changes in the discount rate of the Bank of England, or the interest of England's operations in "selling to the market." The money market writers in New York studied the weekly figures of the New York Clearing House, the relation of reserves to deposits, the relation of loans to deposits, the prospects of the autumn demands for money for crop moving, the inflow and outflow of gold, and, after the coming of the Federal Reserve system, they discussed the disbursement and the open-market policy of the Federal Reserve banks. The money-market students have had no doubt that the abundance or scarcity of bank reserves in relation to deposits would affect not merely the short-term rates of interest but also the yield on long-term bonds.

There have been two main reasons why the theoretical economists in the past have neglected the money factor and have concentrated their study on the psychological attitudes of the saver and on the use of capital in industrial processes.

The first is that down to 1914 we had a minimum of money market manipulation by central banks and governments deliberately designed to control rates of interest. London had some of it. The Bank of England would occasionally raise its rate for the purpose of stopping an unsound speculative mania, but it would not normally sell Consols or Indian Council bills for the purpose of taking up the floating supply of money. These operations were microscopic indeed in comparison with open-market operations in the period following 1921. I have found one case where the sale of 1,100,000 pounds of Indian Council bills was sufficient to "make Bank Rate effective." Operations of 8,500,000 were large. The volume of excess money rarely grew so large in pre-war days as to attract the attention of academic economists or of the general public.

There was a period from 1897 to 1903 when the great influx of gold which came to the United States clearly pulled down the long-time rates of interest. The average yield of 10-year bonds dropped from 4.35% in 1897 to 3.77% in 1902. But the downward movement in yield was gradual and, though it was not unnoticed by economists, it made no change in the prevailing theories of interest.

The second reason why economists disregarded the money factor was the widespread prevalence of the quantity theory of money. For this theory the quantity of
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"Railroad Securities In Post-War Era"

(Continued from page 799)

800 — a tremendous amount. In my opinion, it is the cure for the financial risks. How much further ahead does anyone want to think than the next two, three, four or five years?

"I have tried to prove so far that prices were not too high. As a matter of fact, the prices are discounting the worst periods of railroad history by their prices, and they are also discounting possible bankruptcy. I think I can prove that there is no possibility and that the public is wrong in letting railroad bonds sell to yield 8, 9 and 10%, because those dire things are not possible.

"I have also tried to show you that the efficiency of management has made up, to a considerable extent, for the rate decline. That the rates are regulated and that the financial problem of the railroads has been curbed by open-market purchases and by reorganization.

"So much for railroad credit. "Now, getting down to some of the more specific thoughts: As I said before, prices are controlled by buyers and sellers. From now on this will be mostly on railroad reorganizations, which is my field, and purposely so, because if all the things I have just said are so — and I think they are — I would still prefer to buy the reorganized company or the company that is being reorganized, because there is greater leverage, and if you want to put it differently, greater safety.

"There is greater leverage because, despite the fact that the solvent securities sell at tremendous discounts of 40 and 50%, the others sell at even lower in proportion to what they are entitled to. Then, too, as I said before, you have a lot more sellers of a bankrupt road, that is, defaulted bonds, than you have buyers, and that changes the market as it emerges from reorganization.

"I think the most encouraging thing (and this is digressing a bit) over the last two months has been what I consider weak selling and good buying. We have probably had more institutional buying of railroad bonds in the last two months than we have had in the last year, possibly in the last two or three years. They are once again buying, and properly so, the senior bonds and the reorganized bonds of those new companies.

"These railroad reorganizations which have delayed their consummation because of various litigations, and so on, have had the effect of dampening the market over the last two or three months, because we have had what I call practically no good news. Litigation has dragged out several of the plans, either rightly or wrongly so, and we haven't had a piece of good news, let's call it, on railroad reorganization, in a long time. And, of course, they have been subject to this peace selling, as I have outlined in the beginning — selling by those who must think dire things face the rails after the war.

"And when they sell solvent bonds yielding 9 and 10%, or income bonds yielding the same, they must think there is danger of bankruptcy, because they fluctuate. Sure, income bonds may go up or down a few points. Everything will fluctuate. But if you have no danger of bankruptcy it is ridiculous to think that railroad securities are high, yielding anywhere from 8 to 10%.

"Reverting again for a moment to labor, because I just happened to run across it in these notes, I get a little tired of listening to all these analyses of industrial where they generalize and say industrial stocks do not have the wage problem in anywhere near the same proportion as railroads. So I wrote to the National Industrial Conference Board and also the United States Bureau of Labor Statistics, and I asked, "Do you have any statistics showing the productivity of labor?" And they said:

"Now I have it for railroads.

"The ten miles per man-hour the index from 1892 to 1942; let's skip 1942 and take 1941:

"Using 100 as the railroad index and the manufacturing index, the productivity of labor on the railroad in 1941 was 154, an increase of 54%; manufacturing showed 148, or an increase of 43%.

"I have a lot of statistics on air freight, which I am sure somebody will bring up, but I prefer to leave it until the open forum. I say, generally speaking, that in answer to air freight, this and that after the war, that we have learned one thing about railroading, and I think we only learn it during a war. There is virtually no limit to the capacity of the American railroads, virtually no limit to the business they can handle. Which I would say will be demonstrated out in the western territory over the next few months. They think they are doing business on the western railroads now — but wait until twelve months from now!

"And they can do it, because they have been doing it all over the country.

"Now, when you build a ship or a truck or a cargo plane, the minute you pay for it and use it, that is the limit of that equipment. They claim that we will have glider trains, but we are not going to have any ships like that, and the maximum trains and trucks I have seen are, merely, now, if you live on the Pennsylvania, you will see a lone locomotive taking 100 cars without any difficulty. In other words, there is no limit to the capacity of the American railroads.

"What should be the answer to that? The answer should be — and the war has demonstrated — that they can reduce rates and make a tremendous amount of money, and reduce rates again, because they are the volume business of transportation in the United States.

If I were recognized by all, they are the cheapest way to ship, because they have the volume and the capacity.

"Perhaps we will learn from this war a great many things about railroading that we never knew before. Perhaps the shippers will also learn that. The corollary to that is that we have also found out that what people prefer to term a 'stand-by plant' in 1938 became our greatest national asset during the war. It is the greatest single asset this country has, because without nothing else would be of much value, and we have found that out.

"Now, getting down to something more specific, let us say, as I told you last year, I don't like to talk about railroads and end up leaving you high and dry. I believe, rightly or wrongly, in sticking my neck out and recommending something, as I did last year.

"I have been told, perhaps facetiously, that it is time to shut up, because I will be wrong some day. My answer to that is that when I reach that point I will be the first to tell an audience like this, or any other audience, because I try to base my recommendations on as few assumptions as possible.

"Public psychology may defeat me; some people say it will, but I say if it does (and I don't admit it will), it will only do it temporarily. If railroad securities decline in anything like the manner after we have licked Germany and

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But I don't think that is going to happen; the more banks close and more people realize the values, the more these prices are discounting bankruptcy for the railroad industry, they will no longer be taken to the public by any more come buyers.

"Likewise, I would recommend the senior securities of the railroads before the junior. The senior debentures of the St. Louis and San Francisco bonds, the Missouri, the Colorado, the Northern Pacific, the Northwestern generals and refinements, the St. Paul generals and the other debentures of the R. C. O. I. and the bonds of the Denver consolidated and the Grand railroad, St. Louis and Pittsburgh and the senior bond and I have prob-
ably missed a couple, but that is the general plan.

Why? They are higher than they have been in the last year, in some cases 100%, in some cases 100% higher. But having bought the bonds at the low figure, you will get a rise in the market up--after all allowing a reasonable amount of cash for working capital, for the high prices from the present positions of these railroads by the senior debentures and debentures, you will find that the cash will be more than double, almost more than the advance in price since a year ago.

A year ago they were discounting treatment in reorganiza-
tion, they are up since then, no question about it. If you do di-
vide the senior bonds that I recom-
 menace into the cash, you will see that the cash paid is far greater than the price depreciation.

You may ask, what good is cash, if you can't get it? You are going to get it one way or another. Now when, where and by what means I don't know, but I don't know what is the ICC's minds on changing some of these plans, but I know if you have a senior security, no matter who changes the plan, that cash comes and the majority of it goes to the senior securities. If the plans are altered and the cash becomes an asset of the new company, it will be used to buy bonds, both income bonds and firsts, thereby helping you indirectly.

"If the progress is delayed through litigation or other means, you will probably get it as a pay-
ment in your old claim.

Another thing has changed since last year. Last year we had the first mortgage bonds of the reorganized companies selling at large discounts. Today the good ones, the better issues like Erie and Wabash, are selling at par, and are being bought on all the regular bookkeeping institutions. I predict that a year from now it may be possible to buy some of the new reorganized companies to be purchased by a bank throughout the country, and if that occurs their price will be $10 and 90 rather than an average price of 56, 58 and so on.

When I make that statement, as I have just made, four years ago a banker got up and said, 'Young man, banks can't afford it. But the bankers have happened that I had his portfolio, and I said, 'I don't believe you.' And the outcome is the Acheson Adjustment bond. If that isn't an income bond I have never heard of one.'

"Of course it is an income bond. And if these new income bonds may sell on an 'and interest basis', which I think they will, more and more buyers than paying the inter-

rate every year in April.

"As a progress is concerned, most of them are now at the point where you will get the news one way or the other. The first one that will be secured is the St. Paul. The St. Paul plan was approved years ago by the ICC, by the District Court, and it went into the Supreme Court. The Su-

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The Future Of Interest Rates

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money governs, not the rate of interest, but the level of commodity prices. The following passage, typical of this old view, is taken from Taussig's Principles of Economics, 1920 edition, Vol. II, page 5:

"We may brush aside, not only the notion that interest is for the use of money, but that the rate of interest depends on the quantity of money. More money makes higher prices, not lower interest. The connection which does exist between the rate of bank discount and the quantity of money held by banks has been sufficiently explained; this bank rate oscillates above and below what may be called the true rate of interest—the return on steady investments. In the \(\text{ex-}^{\text{position which follows, this essential rate of interest}}\) will be in hand.

The present writer, who has never accepted the quantity theory of money, became convinced many years ago that this dogma of the quantity theory of money was unsound. In my Value of Money, first published in 1917, I held that in the quantity of money would lower interest rates, first short-term money rates and then, if these continued low for a considerable period of time, finally long-term rates. I rejected the notion that bank rates merely oscillate above and below the long-time rate of interest, finding a clear tendency for short-term rates to be lower than long-term rates and for the call rate, despite its occasional flights to high levels, to be lower than all time rates. I placed heavy emphasis upon the liquidity factor, emphasizing that the more liquid loans, and the readily marketable bonds, would command lower rates than less liquid loans and less marketable bonds of equal safety. I concluded that it was a mistake to look for the pure long-time rate of interest in the yield on gilt-edged readily marketable bonds, because the liquidity factor pulled down the rate on these bonds, and I was disposed to find the pure long-time rate in the rate on safe mortgages and other safe fixed sources. I recognized, too, that the notion of one pure rate of interest was a myth, but regarded it as a useful theoretical concept which concentrated attention on a highly important set of factors affecting actual interest rates.

I recognized, too, contrary to the traditional view that new bank credit could be a real source of capital without price movements being important sources of capital.

Capital consists of the produced means of production. It consists of roads and bridges, of factories and machinery, of stocks of raw materials, of folds and herds, of equipment, of businesses, of factories, of goods on the merchant's shelves. Capital grows as men consume less than they currently produce. Capital grows in the amount of the consumer's trust. A man has an income of $5,000. He and his family spend $4,000 a year in current consumption, and the remaining $1,000 is available for the purchase of a railroad bond, or for a loan on mortgage, or for the building of a home, or for deposit in a savings bank which in turn will buy a railroad bond or lend on mortgage, or for the expansion of the individual's business, or the starting of an independent business enterprise. It was this source of capital which the older economists chiefly stressed. It is very important. To the extent that the savings from immediate consumption, less hats and shoes and ice cream are produced. To the extent that he invests in any of the forms indicated, more machinery, more railroad terminals, more houses, more goods on shelves, more things which will give forth their services in the future are produced. His decisions, to the extent of his economic power, turn the activities of the community toward producing for the present or toward producing for the future. There is a back-and-forth play between the rate of interest and his decisions to save. When the rates of interest tend downward. When rates of interest are high, more saving is induced.

The fourth source of capital is government, the importance of which we were just beginning to recognize in 1920, is business savings and, above all, corporate savings. David Friday in his Profits, Wages and Prices, published in 1920, was the pioneer in emphasizing its importance and in undertaking to measure it for the United States. The turning back of corporate earnings to surplus has been a major source of capital in our history and a major source of our economic growth. Public policy which restricts this, such as the undistributed profits tax, or corporation taxes so high as to prevent the accumulation of adequate surpluses and reserves, does the country incredible harm.

The third source of capital is direct capitalization, par¬eulicul
tical to agriculture, though important also in small shops and factories and in homes. It comes when the farmer or the home owner uses his spare time in painting his buildings, in building fences and barns, in putting in new roads, in reorganizing the family farm, in saving. It involves no money intermediation. It comes when the farmer lets his hogs and flocks increase instead of selling them, when the small tailor retains his tailoring and the carpenter retains his carpentry, when the small shoemaker retains his turnover and the small tailor retains his turnover. This setting the damage Mussolini was doing that year to the capital of the country by his fiscal deficit.

In 1920, in an address before the Indiana Bankers Association, the writer offered the following doctrine with respect to these sources of capital:

"(Chart) This is the Missouri Pacific, one of the outstanding examples of successful reorganization. As far as the over¬charged, it is concerned, it does not differ much from the proposed Arizona compromise, so the figures, while they will always be a little different, draw these general conclusions.

"In this case they could lose 95% of their present business and yet cover charges including pre¬ferring the cost of reorganization, and still cover their income bonds. I did not project this line out, but one would have to be expected if they could cover their first mortgage bonds.

"(Chart) Understand, when I talk about railroads or factories being reorganized or those that have been reorganized, I do not mean to infer that there are

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Compliments of
BONNER & GREGORY
tions to highways, our navy, our army posts—all were paid for out of taxes, rather than out of borrowing. Since 1932 the trend has been overwhelmingly the other way, and the Federal Government has been dissipating capital.

The fifth source of capital is new bank money. To many of the older economists this doctrine would be anathema. How, it would be asked, can the mere interchange of two liabilities create capital? A borrower gives the bank his note, his liability, and in exchange the bank gives the borrower its liability, a deposit credit. How does this create capital? And yet for the borrower it is enough. Armed with the new deposit credit, he can go into the market and divert labor and existing resources from the production of hats and shoes to the production of a machine.

He may, in the course of this, shorten the supply of consumer goods and force an involuntary abstinence on the part of the consumer, but a machine is created which would not have otherwise been created. If he gets the loan at a time when business is slack, he may even have the new machine without forcing any abstinence upon the consumer. It must be recognized that, held within limits, this is a real source of additional capital, and that properly handled is a safe source of capital.

This would have seemed very strange and weird to Adam Smith, who held, and properly in the circumstances of his day, that a bank could safely lend only for short-term purposes, could lend to the merchant or manufacturer only those funds which would be quickly returned by the sale of moveable goods, and must lend no part of the funds needed for the forge or the smelting house. Only the individual capitalist who could wait many years for his money was justified in doing that.

But when the forge and the smelting house are represented by shares of stock or by bonds in thousand-dollar denomination, and when a broad and active stock market exists in which shares or the bonds may be readily sold, the banker who lends against these as collateral may quickly get his money back, and the forge and the smelting house may come to the money market and get bank money.

One of the great essentials for economic progress is that capital should grow more rapidly than debt. When we examine the five sources of capital listed above, it is clear that the first four increase capital much more rapidly than debt.

NY Savings Banks
Report Gain In Savings

"Railroad Securities
In Post-War Era"

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not other purchases in the solvent field that are good. But I say, if Southern Pacific is good—and I think it is—and if Southern Railroad is good, and if Illinois Central is good, in other words, if the danger of bankruptcy has been removed, and in all those cases I think it has, I still think I would rather have the income bonds of this, that and the other railroad that have already reduced their fixed charges 70%, than I would the junior bonds of the borderlines which are doing a good job but which still have a long way to go to catch up with these, because obviously the leverage is in the ones that have been reorganized and are being reorganized.

"Another record gain in deposits is reported for the month of July when there was an increase of $1,049,159 in savings accounts and $63,648,182 in deposits. This breaks the all-time record established in June. War Bond sales were up, too, the total for July being $25,863,361.

"The combined total of net gain in deposits and War Bond sales for the last three months is over $208,201,000 and the gain in savings accounts is $65,037.

"The record for the first seven months of the year shows a net gain in deposit accounts of $282,219,690.

"Dollar deposits and number of accounts are at an all-time high with $5,806,907,259 on deposit and 6,127,823 accounts.

"With more people saving, and and still cover the first mortgage payments.

"This chart is the New Haven. The New Haven could lose almost 65% of its business and still cover the preferred; over 79% of its business and still cover the income bonds; and probably over 80% of its present business and still cover the first mortgage interests.

"This chart (The Rock Island), which is one of the most drastic reorganizations—and, understand, these figures are actual and do not reflect changes in management they do not reflect the fact that they were in bad shape, going bankrupt, spending more than they have brought in, they have brought in other income—could lose 47% of their business and still cover the preferred, over 56% and still cover the income interest, and over 65% and still cover the income interest, and over 75% and still cover the first mortgage interest.

"Now I think this concludes the formal part of this meeting. I want to take this opportunity to express in writing my appreciation to the officers of this organization. This is a repeat visit on my part, and I understand that is unannounced. I appreciate it, and also to the many friends I have outside of the securities business, I thank you for coming this afternoon."

Now, with your permission, I will answer what questions you might have, if I can.

UTILITY PREFERRED

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ESTABLISHED 1879
The Future Of Interest Rates

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financing war and destruction, and when the assets of the banks rest primarily on the future taxing power of the government, caution is obviously indicated. Excess here has been typical creditor of “free reign” through all modern history. Usually it has been bank notes of central banks of issue. But deposits are also demand liabilities, and are also susceptible to abuse.

Perspective on this is given by some comparative figures. In the last war, between mid-April, 1917, and December 31, 1918, we expanded commercial bank credit in the United States by $131 billion, or 123 billions in loans and investments. We pursued a very conservative financial policy in the last war. The money market was first. Business was not to be held down bank expansion. The government made interest rates on bonds which attracted the people’s money. The great bulk of the public debt was placed with the people rather than with the banks. This expansion of bank credit was adequate to win the war.

In the period from June 30, 1922 to mid-April, 1929, without any need for it, but as the result of cheap money policies on the part of the Federal Reserve system and m-in-flowing gold, we expanded commercial bank credit in the United States by 131/2 billion dollars in deposits and by 14½ billion dollars in loans and investments. The effect of this was to mask the underlying shortage of real capital from the four normal sources of capital in a world which had spent four years in attempting to create a new organization after the war. The world ought to have had high rates of interest (a) to compel economy in the use of such capital as was available, and (b) to used the additional savings. But on a vast scale, we substituted bank expansion for savings, pulling down interest rates. We created a great deal of physical capital in the world, but we created also an unmanageable debt. We added to the high interest rates of late 1928 and 1929, and subsequently brought about the demoralization of 1931 and 1932.

We are now expanding bank credit against government securities on a scale which makes the 1922-28 episode look very modest, and we are maintaining absurdly low interest rates while we do this. How far can we go?

I have heard the view expressed that we now have new techniques which make this safe. I see very little in the way of new techniques. I see rather an altogether exaggerated employment of old techniques. In the matter of bank market operations by the Federal Reserve banks, for example, in the last war we used them for a few days at a time to facilitate the flight of capital if necessary to create a new organization after the war. The world ought to have had high rates of interest (a) to compel economy in the use of such capital as was available, and (b) to substitute bank expansion for savings, pulling down interest rates. We created a great deal of physical capital in the world, but we created also an unmanageable debt. We added to the high interest rates of late 1928 and 1929, and subsequently brought about the demoralization of 1931 and 1932.

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bought government securities in terms, not of tens of millions or of hundreds of millions, but of billions, replenish-
ing the market to facilitate war financing, but they
expand credit at low rates of interest against government se-
curities. Between February of 1942 and April of 1943 the Federal Reserve banks bought off the market very
memorandum, monthly average figure for February, 1942,
being 2 billions 249 millions, and the monthly average
for April of 1943 being 6 billions 372 millions. This is no
more a technique, but the vast scale of its use makes one
ponder.

In the last war Federal Reserve rediscount rates were held
at the market to facilitate war financing, but they
followed the market up as the war went on. The New York
Federal Reserve Bank placed its rediscount rate at 3\% in
1917, moved it up to 35\% at the end of the year and to 4\%
early the next year. At the midpoint, one-half of the year,
the present Federal Reserve discount rate is one-half of 1\% for advances secured by government obliga-
tions maturing within 2\% years. In this technique, there
is no new technique, but merely an extreme applica-
tion of an old one.

The Federal Reserve authorities now have power to re-
duce these reserve requirements of the member banks and
they have already done this so far as New York and Chicago
banks are concerned. But in the last war we reduced mem-
ber bank reserves by Act of Congress in 1917. There is no
new technique here, though the power to go very much fur-
ther in this connection is in the hands of the Federal Reserve
system, and it is quite possible that we see no reversal of Federal Reserve policy in respect to money rates are anticipating that it
will be fully used. I believe that there is no validity at all in
the contention that new techniques have made the abuse of
banking impossible.

I have seen calculations which would indicate that the
capacity of bank credit to expand and to take government
bonds is limited. If no question is raised to the credit of
the government and if there are no currency disorders. By
pushing the capacity of the Federal Reserve banks to ex-
tend to the legal limit, which would pull down their re-
serves against notes by 35\% against discounts, great
additional can be made to the reserves of the member banks.
It is to be observed, however, that this leverage is being used
up rapidly so that the Federal Reserve banks can
serve notes to rotate and deposit liabilities combined stood
at 90.4\% in April of 1942 and at 73.4\% in April of 1943.
Monetary reserves, which stood at nearly 2 billions in
early 1941, dropped below 1\% billions on June 23, 1943.
We are using up ammunition very fast. It is technically
possible to go to a great deal further, however.

Further reduction of the reserve requirements of
the member banks can make further expansion possible, par-
ticularly since the reduction of the reserve requirements in-
makes the multiple of expansion against excess reserves
exceed the multiple of expansion against required
reserves. But such use can only be made if we will push
the Federal Reserve ratios to the legal limits, or member bank
reserve requirements to the lowest legal limits, when we
face the potential withdrawal of refuge gold in the post-
war period, and the need for flexible bank credit in the post-
war readjustment.

There are indeterminate elements in these calculations. One
of these is that the whole production will increase as the process goes on, which would pull down the
magnitude of the expansion, and one must make assump-
tions regarding the volume of private loans that the banks
will be called upon to make if a great rise in prices comes
and the industries are obliged to turn to the banks to in-
crease their working capital funds. At the moment such
loans are nearly all down, because the government is financing
so much to the industrial expansion.

There are advocates of cheap money policy who would re-
cover their postion on the doctrine of J. M. Keynes, who re-
gard the price level as a matter of policy, which rules out
money time preference and compensation for waiting in
the explanation of interest, and makes the whole determina-
tion of the rate of interest rest on liquidity preference as
against the supply of money. If only money can be made
plentiful enough to glut sufficiently the desire for hoarding
on the part of those who wish to remain liquid, interest
can be held at any desired level, according to the Keynesian
document. I regard this doctrine as an absurd exaggeration of
one factor in the theory of capital and interest which I have
found quite impossible to believe in the Keynesian theory. I would point out that Keynes has himself abandoned
and Money, page 197, he states the theory and indicates ex-
plicitly the doctrine that the theory applies not merely to
short-term rates, but also to the complex of various rates of
interest for different periods of time. But by page 197 of
this book he has abandoned the doctrine.

Another point is that the operations of the Federal Reserve banks in the United States in 1933
and 1934 were limited to the purchase of very short-dated
securities, the effect of which may "have but little reaction
on the much more important long-term rates of interest.
Pages 205 and 206 postulate that the long-term rates of interest
may be prepared to deal in debts of all maturities and even in
debts of varying degrees of risk. He concludes, "Perhaps
the economic effect of the large bank to large bank
prices gilt edged bonds of all maturities, in place of the single
bank rate for short-term bills, is the most important prac-
tical improvement which can be made in the technique of
monetary management."* This, I submit to the
Keynesians, is a complete abandonment of the theory
that the supply of money in relation to liquidity demands
should govern both long and short term rates of
interest. And I would call their attention further to Keynes' warning on page 207 as to what happens to the rate
of interest when a flight from the currency comes.

I think that there are two objectives of monetary
policy in the minds of men who hesitate, when the suggestion is made that the Treasury ought to make rates of interest that will
attract investor's funds, and that, by looking at the whole
system ought to tight the money market to limit bank ex-
pansion. The first is concern as to what would then happen to the banks which now hold long-dated governments. On
this point, I would say that this problem becomes greater
and less easily manageable the longer we defer it. The
solution which I have offered for it is that the banks holding
long-dated governments be allowed to subscribe for the
new higher yield issues with their old bonds, on terms some-
what less favorable than those given to cash subscribers, say
at 98\% of par. There may be better solutions, but in a
case we should have one ready.

The second objection relates to the interest charge on
the public debt in post-war years. If the Treasury were using
the existing easy money to place long-dated bonds with in-
vostors, the point would have merit. But when the Treasury
is financing itself so largely, so far as investors are con-
cerned, with war savings bonds which are in effect demand
deposits after a short time, and when, as a whole picture,
it is clear that the Treasury must refund a great deal of
time in a comparatively few years, the point seems to
have no validity. We had better face the realities of the fu-
ture interest burden now. Facing its realities would give
immense impetus to the move for economy in spending even
in the midst of war, and in particular might make the Treasury a strong advocate of doing the work in forty-
hour week for the duration of the war, and of 50\% overtime
payments beginning at forty hours on work on government
contracts as well as elsewhere.

I think that the Treasury can get a great deal of money
from the people at interest rates below those at which we
sold Liberty bonds in the last war. Those rates, beginning
at 3\% on a fully tax free bond in the first Liberty loan,
went up to 4\% on a partially tax exempt bond in the
fourth Liberty loan. The immense bank expansion which
has already taken place has created a demand for new
bonds owned by the people which the government can now get at
moderate rates of interest. Patriotism by itself won't take
bonds with present low coupons in adequate quantity, but
patriotism, plus vigorous bond selling by the leftist con-
mittees, plus coupon rates intermediate between those on
the Liberty bonds and those now prevailing would get a
great deal of investor's money. The rates might not have to
be very high, but could still be kept moderate, if we have a
prompt facing of financial realities. I think that the Treas-
ury should move promptly to fund its debt into long time
bonds in the hands of the people while unused bank
securities are so great, and while moderate coupon rates are still
possible. I think, too, that such a return to financial
orthodoxy would greatly strengthen the fabric of confidence
in Government finance, in the future of the currency, and in
the whole economic picture.

*Something like this may now be part of Federal Reserve policy. See Federal Reserve Bulletin, July, 1943, page 306.

The CHRONICLE invites comments on the views expressed by Dr. Anderson in this article, or on any related phases of the subject under scrutiny. The editors should be addressed to American Commercial and Financial Chronicle, 23 Spruce St., New York (6), N. Y.

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Extension Of Credit On Unlisted Securities

BY OWEN V. VAN CAMP
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Prior to the enactment of the Securities Act of 1934 there did not appear to have been any statutory restriction covering the types of securities which could be carried in margin accounts by security dealers and brokers. It is generally recognized that listing alone should not constitute a yardstick whereby the desirability of any particular stocks or bonds as security for the extension of credit may be measured.

With the enactment of the Security Act of 1934 it became "unlawful for any member of a national securities exchange or any broker or dealer who transacts a business in securities through the medium of any such member to extend credit or arrange for the extension of credit on a call or called over - the - counter securities. Many authorities are of the opinion that this law resulted almost immediately in the curtailment of transactions in such high-grade securities as the stocks of the better-known banks and insurance companies of the country and certain well-known corporations whose securities were actively traded in the over-the-counter market but which were not listed on any national securities exchange. Exchange members and others who formerly accepted such securities as collateral to margin accounts were obliged under the law to eliminate them and such eliminations in many instances resulted in the debtor being obliged to dispose of them to his disadvantage.

One of the reasons advanced for this drastic action was that there were no means for obtaining bid and asked quotations on unlisted securities which were authorizeable and could be relied upon. This is no longer the ease as the National Association of Securities Dealers, Inc., has taken over the control, through an appropriate Committee, of the giving out of quotations to the press. Another reason was that the trading of stocks and bonds on exchanges was governed by very strict rules and over - the - counter transactions were not so controlled.

With the passage of the Maloney Act, which has established a means of control and supervision of over - the - counter houses, it would seem that that argument no longer has merit and the retention of the prohibition in the Securities Act of 1934 is found to be a hardship not only on the brokers and dealers who are specializing in over - the - counter securities but also on Exchange members who undoubtedly could increase their volume of business if they were permitted to accept unlisted securities as collateral and to extend credit against them. This should result in an increased volume of such business and provide (Continued on page 809)

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Utilities Need A War-Time Moratorium On "Death Sentence" (Continued from page 701)

The organization of holding companies, the first of these, United Gas Improvement, organized in 1932, controlled properties located largely in Pennsylvania and Connecticut, and had all holding companies of this type there would have been little cause for complaint. But in the hectic 1920's, buying public was suddenly converted to the attractive investment of common stocks as long-term investments, on the theory that in investment in good companies was more or less automatically at a compounded rate, and these companies, which companies reinvested part of their profits in their own businesses.

This idea of accelerating growth was immediately exploited. Since chain stores were a growth industry, the public was induced to dis¬ count the future and pay 30 to 40 times current earnings for stocks like & A&P and Woolworth. A lit¬ tle later, utility holding company stocks had a similar appeal, as statistics pointed out the wonderful growth record of the industry. Taking advantage of the public's sentiment, promoters like Insull, de Forest and lesser lights exploited the public craze for utility stocks by forming new holding companies, sometimes, with as many as four or five tiers of super¬ holding companies in one system, and each with its own bonds and preferred stocks held by public. Thus, what were originally true values were grav¬ ited to dizzy heights.

The stock market crash of 1929-1932 put some of these new companies into bankruptcy, although legitimate holding companies blaming in sound condition, and many of the derailed enterprises found around security holders, and the promoters of these, economically unjustified super¬ holding companies. Accordingly, the whole affair was converted in to a political issue, and when the present Administration came into power one of its early achieve¬ ments was adoption of the com¬ prehensive Public Utility Holding Company Act of 1935. Although this Act, created primarily for the protection of the public as con¬ sumers and investors, contained many praiseworthy provisions to create and maintain a sound basis for utility financing and accounting, it also set out a confused program for dissolving a large part of the holding companies of the country.

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While the SEC has not yet forced the actual liquidation of holding company portfolios through "barred-head" sales of operating companies, the recurring threats of such liquidation has been recognized by the holding companies and numerous utilities. According to an SEC schedule, published in Public Utilities Fortnightly of March 4, 1945, investors had last year held the 6,358,000 shares of Delaware Electric & Gas Company, which controls a utility company. The SEC, however, has been able to show that there has been some recovery in market. But that loss would be equal to $47,000,000.

Even at present levels, Standard and Poor's index of 8 operating utility stocks shows their market should be lower than at any time in the past 3 years, while the average index value of all holding company stocks is currently below the lowest levels of the entire period 1932-1940, except for 1935, when the Holding Company Act was be¬ fore Congress, and for 1938, when the SEC first took notice of the present level. Obviously, the forced liquidation of holding company portfolios at the present level conditions offers the prospect of an eventual resumption of the holding company securities.

A few weeks' time has been wasted, moreover, by the SEC in "shadow boxing" with the holding companies over the interpretation of Section 11 of the Act, which provides for a new commission thereunder. The utilities were informed they must file voluntary plans for compliance with the Act, but since they were not expected to have to be interpreted, all these plans, with some modification of those submitted by American Water Works and Electric Light Co. not rejected or disregarded, in sought to eliminate them. These companies were left entirely in the dark as to the considerable period of time as to whether they are within the terms of any of the plan submitted, or whether it's still will be interpreted as complete dispa¬
The Securities Business In the Post-War Period

(Continued from page 796)

national wealth at a furious rate in order to win this war. We will come out of it with more debt and more money than any other nation in history. We cannot cancel one against the other because the debt is owed by all of us and the money is owned by each of us. Therefore, unless and until we can reverse the process by which the money was created, a great deal of it is going to seek—and find—employment and a great deal of it will be in the hands of those who will need intelligent and honest assistance in the search for such employment. This will be the real test for the securities business. If it takes proper advantage of this opportunity it can quickly regain lost caste as well as cash. If it takes improper advantage of the opportunity it may—and it should—be all but legislated out of existence.

Job Number Five is a bit complicated and probably will be undertaken only by those securities dealers who specialize in Institutional business. It is selling the commercial banks' earnings assets to its depositors. Sounds simple to the point of simple-mindedness, doesn't it? Well, it isn't, and it is both a problem and an opportunity for the securities business.

We just said that we had monetized our wealth at a great rate in order to win the war. A large part of this process is taking place in the commercial banks. By the time the war ends they will have increased their deposits and their earning assets to such an extent that unless they can sell more capital stock—which is another possible job for the securities business—they simply will not be able to handle the additional banking business, in the shape of commercial loans, which will normally develop out of the construction period. Commercial banks, as everyone should know by this time, are running the equivalent of a margin account. The securities in the account are their earning assets, the margin is their capital, surplus, and undivided profits and the debit side of the ledger is represented by their liabilities to depositors.

When the war is over every commercial banker in America will be willing, if not anxious, to get out of the bond business and back into the banking business. He simply cannot do this unless he either (1) collapses his deposits and earning assets simultaneously by selling the earning assets to the depositors or (2) puts more "margin" in his account. One or both of these will have to be done as matters now stand and either of them means a real job for the securities business.

There is more to the present story and many more chapters will be added at time goes on. Nothing can be asserted categorically, fairly and finally. But on the basis of visible facts there is every reason to believe that the securities business has a post-war role in which the potential possibilities for constructive and predictable activity are greater than anything it ever has experienced.
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N S T A Municipal Bond Committee Reports

Russell M. Dotts, of Boren & Co., Chairman of the Municipal Bond Committee of the National Security Traders Association, made the following report to the Association at its annual meeting in Chicago.

Shortly after the formation of the Committee, its Chairman consulted Mr. Austin Tobin, Secretary of the Conference on States' Defense and offered our services in cooperation with the Conference. The Committee (in an effort to aid local bond issues) was formed at the request of the House Committee on Internal Revenue to assist in the Tabor Bridge Authority bond issue as the "White case," involving the taxation of the interest on their bonds. Again Mr. Tobin offered to send to each of the representatives of its Committees any reports or suggestions which might be helpful in keeping us informed.

Early in June our attention was called to a bill being presented in Congress by Representative Lloyd A. Boren of Oklahoma, known as the "Boren Bill" (HR 1250), which bill is to prevent the SEC from having any jurisdiction over so-called exempt securities, which, in his opinion, were harmful to his constituents. Your Chairman went to Washington to consult Mr. Wood, of the Domestic and Foreign Committee, and Mr. Hoffmayer, who assumed the leadership for the various financial organizations. On June 16th and subsequent dates letters were sent to all municipal representatives and presidents of our affiliates, urging them to have their members contact their local municipal officers and Congressmen urging their support of this bill when it is presented before the Interstate and Foreign Commerce Committee for hearings. We supplied each representative with a copy of a letter written by Mr. Wood to a governor of one of the States as well as a letter written by one of our affiliates to its members, suggesting they use the type of approach. A great deal of good work has been done and there still is plenty more to be done before we can be assured of its passage.

The committee, through the efforts of our affiliated groups has secured the promise of the service of governors, mayors and other high ranking municipal officials to either personally appear or send representatives to the hearings when they are held. Mr. Wood has promised to ask that the moment he learns when the bill (HR 1250) will be held, a last-minute check be made.

There has been practically no change in the situation during the year. However, we have had the pleasure of adding the Municipal Bond Club of Memphis with its 26 members as well as the Dallas Bond Club and its 76 members to our membership during the year, which I am sure will further strengthen the municipal representation of N.S.T.A. The various representatives having been selected by the presidents or the affiliates - themselves, have given their chairman their fullest cooperation. The committee has endeavored to cooperate fully, with the officers and Executive Council to keep them fully informed at all times of our activities.

At this time I would like to take the opportunity of thanking every member of our committee, every representative and the officers of N.S.T.A. for the splendid help and cooperation given me this year; and to assure the new chairman that he can expect and will receive the same enthusiastic cooperation for the ensuing year.
DIVIDEND NOTICES

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Federal Reserve Dividend No. 156
A quarterly dividend of 7¾% on the Preferred Stock for the quarter ending September 30, 1943, has been declared effective September 30, 1943. Dividends are payable October 1, 1943, to holders of record on September 15, 1943.

SOUTHERN PACIFIC COMPANY

DIVIDEND NO. 103
A dividend of Six Dollars ($6.00) per share has been declared payable October 1, 1943, to the holders of record at the close of business September 17, 1943, for the quarter ending August 31, 1943. The dividend will be declared noncumulative.

UNION CARBIDE AND CARBON CORPORATION

A cash dividend of Seventy-five cents (75¢) per share on the outstanding capital stock of this Corporation has been declared, payable October 1, 1943, to stockholders of record at the close of business September 17, 1943. The undersigned has declared:

ROBERT W. WHITE, Vice-President

E. Felix Shaskan Dies

E. Felix Shaskan, partner in Shaskan & Co., 46 Exchange Place, New York, a member of the New York Stock Exchange, died at his home of a heart attack.

An art connoisseur, Mr. Shaskan had acquired an extensive collection of paintings. He is survived by two sons, Paul N. and George Lincoln Shaskan, and two brothers, George and Alexander Shaskan.

FINANCIAL NOTICE

Notice of Partial Redemption of Bonds for Fishing Fleet

Notice is hereby given to holders of the above bonds that, in accordance with paragraph seven of the indenture governing the bonds of the American Fishing Fleet Corporation, dated October 3, 1921, Mr. E. J. Harrington, as trustee, of such corporation, has recommended to the undersigned Trustee, Shaskan & Co., 46 Exchange Place, New York, to authorize him to make an offer to purchase all bonds held by him in trust, subject to the conditions therein provided.

The Bonds as called for redemption are: 1919-44 4759, 4827, 4918, 5033, 6927, 7039, 8338, and 8438.

Denv. & Rio Grande Offers Interesting Situation

Denver & Rio Grande Western Railroad Company, in the situation, according to a circular received from William H. Dent, President, 61 Broadway, New York Stock Exchange, its circulars to the New York Stock Exchange. Copies of this circular may be obtained upon request from Pflugfelder, Bampf & Rust.

FINANCIAL NOTICE

Notice of Redemption to the Holders of preference stock in the Panhandle, Colorado and New Mexico Railroad Company

The undersigned, as Trustee for the Holders of the preference stock in the Panhandle, Colorado and New Mexico Railroad Company, hereby give notice that the company has filed with the Interstate Commerce Commission its petition for the approval of an agreement to issue $1,000,000 of 8% bonds, such bonds being evidenced by promissory notes of $1,000 each, with a face due at maturity of fifteen years from the date of issuance, payable annually and subject to call at any time at a premium of five percent (5%) upon the principal.

The agreement provides that the company will pay interest on the notes at the rate of 8% per annum, and that the notes will be redeemable at the option of the company at any time at a premium of five percent (5%) upon the principal.

The notes will be registered in the name of the holder and will be paid in full at the office of the company at the time of redemption.

The redemption is subject to the approval of the Interstate Commerce Commission.

A dividend of 25¢ per share on the common stock of the company has been declared payable. The dividend will be payable to stockholders of record at the close of business September 15, 1943.

A. HOLLANDER & SON, INC.

COMMUNION DIVIDEND

DIVIDEND NOTICES

OFFICE OF NORTHERN STATES POWER COMPANY

Chicago, Illinois

NOTICE OF DIVIDEND

October 1, 1943, a dividend of $1.66 per share has been declared. The stockholders of record at the close of business on September 1, 1943, will be entitled to receive the dividend.

H. G. RUDHEFFER, Treasurer.

Rapid Advancement for L. Col. K. H. Owens

L. Col. Kenneth H. Owens, former radio communications officer, has received many rapid advancements during the World War I and the present conflict.

He began his military career in the infantry as a private soldier while a medical student at the University of Chicago, and in three years rose to the rank of Captain. After his discharge from the service, he returned to the University of Chicago and became an instructor in physics. He was promoted to the rank of Major in the Reserve Officer's Corps and was called to duty in the Army in January, 1942, to command the recruiting center at Camp Grant in charge of a medical detachment. Appointed Adjutant in May, 1943, he was transferred to the medical replacement training center in August, 1943, as Assistant Adjutant General of the assignment center. He was appointed personnel officer in charge of military and civil affairs in the United States for the area of the Pacific, November 1, 1943. On April 15, 1944, he was transferred to Major General and in April, 1945, he was advanced to his present rank.

R. P. Compton Joins Republic Aviation

Randolph P. Compton has re¬ signed as assistant secretary of Republic Securities Corp., to engage in war production. He has been instructed to report to the re¬ training course at the Harvard School of Business Administration. Mr. Compton has just become as¬ sociated with the Republic Avia¬ tion Corp., organized last October. Prior to joining Union Securities Mr. Compton had been in charge of municipal securities of United ac¬ tion Corp. since 1930. He was formerly associated with Shaskan Co., specialists in municipal bonds.

La Salle, 120 West Madison, Chicago, Illinois, September 8, 1943. (Continued on page 827)
Bank and Insurance Stocks

This Week — Bank Stocks

By E. A. VAN DEUSEN

Bank stocks, since the lows of 1932, have for a number of reasons, lagged behind the market. It is of interest to compare the market record of high grade bank stocks, as represented by Dow Jones and Poor's weekly index of New York City bank stocks, with that of high grade industrials, as represented by the Dow Jones Industrial Average.

At the low of 1932 Dow Jones Industrials were 41.42, while at the lows of 1933 they were 145.82, or 253.84% higher. Standard & Poor's Bank Stock Index was 60.3 at the 1932 low, and 138.5 at the 1933 low, or only 50.4% higher. This is a truly astounding difference, for the bank stocks had a return during the period, 1932-33, of 25% of the appreciation of the 37% rise in the Industrials.

Measuring again from the 1932 lows, we find that the appreciation ratios of the market in the first quarter of 1933, we find that the D. J. Industrials are 184.40, or 371%, while bank stocks are up from 63.6 to 156.2. In this case bank stock appreciation was 42.2% of industrial stock appreciation. Obviously, bank stocks did comparatively better between 1932 and 1933 in relation to the industrial stock index, than they have since 1937.

Current market conditions and industrial moderates are below today's highs of July 1943, as follow:

<table>
<thead>
<tr>
<th>Bank Stocks</th>
<th>Industrials</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 1943 High</td>
<td>145.82</td>
</tr>
<tr>
<td>July 1937 High</td>
<td>96.33</td>
</tr>
</tbody>
</table>

If we assume that both bank and industrial stocks are, during the course of the present period, equally likely to reach their old highs of 1937, a not unreasonable assumption, we find that bank stocks are in a very favorable position, as follows:

<table>
<thead>
<tr>
<th>Bank Stocks</th>
<th>Industrials</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug. 18, 1943</td>
<td>66.23</td>
</tr>
<tr>
<td>Sept. 11, 1943</td>
<td>64.63</td>
</tr>
<tr>
<td>Oct. 15, 1943</td>
<td>62.65</td>
</tr>
<tr>
<td>Nov. 19, 1943</td>
<td>61.96</td>
</tr>
<tr>
<td>Dec. 31, 1943</td>
<td>61.92</td>
</tr>
</tbody>
</table>

It now seems worthwhile to examine the performance of the individual bank stocks and see if, during this later date necessary to embrace the Standard and Poor's Index. The choice of this publication, therefore, shows the market appreciation of each stock from December 31, 1942 to August 13, 1943, and also the potential appreciation of each stock necessary for each stock to reach its 1937 high. The current yield of each stock is also shown.

Some Thoughts On Postwar Rail Prospects

(Continued from page 379)

mound is satisfied which, with prospect of a 9.20% rate, would indicate theoretically five years of $3,878,000 cars per year. The usual annual operation of freight revenues in terms of cost of operation of road is $6,400,000. This discloses a figure of $1,000 per car result, which, applied to possible post-war output, plus passenger revenues, at 40% of the 1941 rate, of $20,000,000 per car, and $50,000,000 per car for freight, would provide $3,000,000 per car for freight revenue, leaving the express business for the direct express service and industrial traffic would be $40,000,000 per car.

Net current assets at the close of 1943 may reach $1,700,000,000, or $4,100,000,000 at the close of 1944, or $4,700,000,000 at the close of 1945, or $5,000,000,000 at the close of 1946, or $5,400,000,000 at the close of 1947.

Post-war rail earnings will be approximately $6,000,000,000, with the best results probably favoring carrying tonnage between the South-West and the Pacific Coast.

Thereupon, the writer proceeds to state this in the bulletin of the statistical market appreciation seems probably, and some dividend increases, after the war, would be in order.

It will be noted that from Dec. 31, 1942 to Aug. 19, 1943 the average appreciation of the 19 bank stocks was approximately equal, 5% in order to arrive at the 1937 high, the bank stock index must be 62.8%. There are, however, marked differences between the Standard & Poor's Trust, for example, shows an approximately 100% appreciation in the current year, while United States Trust, a Standard & Poor's Trust, to reach the 1937 high, Empire Trust shows a potential appreciation of 72% of the total, while Commercial National shows only 12%. Between these two extremes, there are small amounts, 7% of the total, with Commercial National shown on 12%. Between these two extremes, there are small amounts, 7% of the total, with Commercial National shown on 12%.

In the case of Empire Trust, the stock suffered an unusually severe decline from a high of 37% in 1937 to 5% in 1940, at which time its per value was changed from $10.00 to $30.00 per share, since in the new stock the new stock has climbed to 80. The 1937 high of 37% was on a par of $10.00, and is mathematically equally representative to 186% on a par of $50.00, thus the present stock will have to appreciate approximately 133% in order to reach its equivalent 1937 high.

The point is pointed out in this column from the banks, the banks are enjoying a period of great activity occasioned by the bank's stupendous war effort; furthermore, this act is being translated into the most favorable earning situation which they have experienced in many years. Deposit, earning assets, book values, and of the books based on the per-share basis, have been growing and are continuing to grow at a great pace, too, seems to hold great promise, since on a lending basis, and on a sounder basis than was possible under a system which, in the 1928 era, tended the speculative activities of "security affinity.

All things considered, it seems that this period that a diversified list of high grade New York City bank stocks at current levels has much to offer the conservative.
Canada Securities

By BRUCE WILLIAMS

In view of the wealth of discussion that has been aroused by the numerous currency plans recently proposed, it might be well to consider the Canadian position. The Bank of Canada, just made public by Mr. Morgenthaler, is the Canadian version of the British plan which stresses the gold standard. It is a very well-gentles-White idea which places emphasis on the status of gold, Canada appears equally well-placed.

From the angle of the volume of international trade, Canada stands third among the nations of the world, but based on population, Canada is the leading country in foreign trade and currently exports approximately 9% of her total production. On the other hand, if gold is to be the paramount basis, Canadian production at present is placed second, but when the Canadian National Railway is developed, there is little doubt that Canada will furnish the bulk of the world’s supply.

However favorably one country or another might be affected by whatever system is in force in the post-war world, practical foreign exchange observers are beginning to be impressed with the fact that a world economy is going to be dictated by hitherto conceived economic and political policies, more, the rules that determine the honor of nations will must be interpreted and expected to be another abstruse “League of Nations.”

Before hurrying on to any ambitious global scheme, it would surely be possible for us, together with the British Commonwealth, and, it is true, to keep the main currents of the world on an even keel in the present phase of the world’s struggle until such time as a carefully considered universal plan could be worked out. Furthermore, we must not forget the disastrous experience of the British after the last war when the pound was rushed back to gold at a price. Unquestionably, when one considers the present vested interests of the British Commonwealth, the British Commonwealth and Russia, gold will continue to be the monetary basis, but it must be made the servant and not the master of the economy.

Turning to the Canadian securities market, the past week has been quiet with little activity. Dominion and foreign issues were steady but inactive. The Eastern present quotations continued in the demand and the

We speiclese in

CANADIAN

Government - Municipal

Corporation Securities

H. E. SCOTT CO.

49 Wall St., New York 5, N. Y. 

Bought — Sold — Quoted

Wood, Gundy & Co.

Incorporated

14 Wall Street, New York 5

Bell System Telephone 1-920

Investment Trusts

That Bogey Man Has Teeth

We have a final batch of June 30 reports which, by all precedent, should appear in this column. But they are history now—and we’d like to devote most of the available space this week to a discussion of the future.

So, with your indulgence, we’ll simply close the tables together with the figures presented through June 30, 1943. Affiliated Funds:

$24,018,549 before deducting $10,600,000 of debentures; American

Bancorp Fund, $71,684.80 (July 31), $91,072,565; Commo-

dities Fund, $1,690,547; Group Securities, $1,308,508; Trustee

Fund, Series "B," $3,023,778; Keystone Custodian Fund, Series "K".

$1,641,219; North American Investment, $1,215,004, $1,405,000

of debentures; Investment Trusts, $18,020,919; Union Trusteed

Funds, $4,916,904; Wellington Trusteed Fund.

And now to the piece de resistance, the foreign-man-inflation. A growing number of people begin to suspect that maybe he has it.

A careful reading of The Economist reveals that he seems to be aiming at some point on the line where the Western alliance and or the threat there were vast, but not more than the line that was tolerable.

The service (after searching uncounted newspapers for the following conclusions:

1. Wholesale prices after the war, on the average will probably rise at least 100% and may go as high as 150%.

2. At the war's end inflation will still be at the level existing when the stage is closed in two or three years.

Significant excerpts from the article follow:

"Since the Roosevelt administration devalued gold ten years ago and permitted manipulation, all money in this country consists of pieces of paper or of edge and dent which though not in form, it is all that money.

"This plain fact, though known to everyone, has implications not always recognized in practice. In practice, it removes all restrictions on monetary transactions, a fact imposed by law or set up as policy by governmental decree which, in this country through the Federal Reserve system, can be changed overnight. They are weak barriers against easy money movements and political juggling.

"When the volume of money can be expanded without any visible limit, the stage is set for inflation. But nothing happens until the actors start to play their parts. Sometimes there is a lot of talk, but no real effort to step out and take their cues. In that case, the stage goes on. This is a reasonably accurate summary of monetary history from 1934 to 1940.

"Nearly all economists, both new and old, believe a failure to expect an inflationary upsurge in the immediate post-war period would not come true was that most businessmen, disturbed by govern-

mental policies, did not extend their operations. Year after

year bank loans remained almost

uninjured.

"What is more important, the velocity of money, not the rate of demand, declines steadily for long. In 1938, of course, depo-
s were more than doubled, the in-

fluence of the recession was neutralized by their sluggishness. . . .

"During the Napoleonic Wars British and German prices each went up about 75%; American prices, close to 100%.

"During the Civil War prices in the North rose 190%.

"During and after World War I through 1929, wholesale price ad-

vances were: in Great Britain 22%; in the United States, 150%; in France, 500%; in Germany, 1600%. In 1943, prices climbed another 250 and German prices soared to the sky.

"So far as the post-war world, ex-

tending into the Spring months of 1943, is concerned, the history of price movements based on 1939 have been:

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<tr>
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<td>250</td>
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<tr>
<td>Britain</td>
<td>580</td>
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Axis Nations

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<tbody>
<tr>
<td>Japan</td>
<td>95</td>
</tr>
</tbody>
</table>

"(Up to Dec. 1942)" (Continued on page 827)

Keystone Custodian Funds

Certificates of Participation in Trust Fund Investing their funds as follows: SERIES B-1, 2 and 3 in Bonds SERIES K-1, 2 and 3 in Preferred Stocks

Postwar Rail Prospects

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</tbody>
</table>

"(Up to Dec. 1942)" (Continued on page 827)
Citizens
Federal
Savings
and Loan
Association

3% Yield
On All Kinds of
Trusts and
Investment Accounts
by this
2/4 Million Institution
JUST MAIL CHECK
WE DO IT
All Accounts Insured To $5000

Savings and Loan Institutions Are Penetrating To All Nations

By EDWARD B. CULBERT
Vice President for United States of America, International Union of Savings and Building Societies

A recent request for material on savings and loan associations to be sent by the United States Savings and Loan League to Assumption, Panama, in the keeping of one of the higher officials representing the Latin American Peer Brotherhood of the Western World, continued, was the International Congress of Savings Buildings and Savings and Loan Associations. Held in Zurich, this year, in 1930, that the total resources of all savings and loan associations in the world are $20,000,000,000. The United States has the largest 43.45% of these assets, Western Europe the next, and the United Kingdom, 26.12% of these institutions in the world, which are in the second decade of their existence, now have reserves totaling $103,000,000,000, and the last year and a half have added $4,000,000,000 of new deposits to their reserves. Mr. Edward Culbert, Vice President of the United States Savings and Loan League, said:

"The savings and loan institutions of the world have already been the subject of many books and articles. However, it has not been until the last few years that the importance of these institutions has been recognized. The savings and loan institutions are a unique and important part of the financial system in any country they operate in. They are a financial institution of the people, by the people, and for the people, and they serve as a way for individuals to save money and invest it in their communities. The savings and loan institutions are a critical component of the financial system and they play a vital role in promoting economic growth and stability."
Government Policies

See Inflationary

(Continued from page 762)

When the President nominated Mr. Robert A. Heinrich, a recent radio nosie to future growth, the government does not permit us to deliver it can then move in on in un with war veterans and war plant

Only recently the Chief Execu
tive Officers of several large insurance companies had the President should have occu-

Think there is evidence that when the struggle ends for the troop, it will begin for free enter-

Incident to President Roosevelt’s planning a post-war world and the expen-

uation, the convention approves a splendid opportunity for dealers and com-

Investment Trusts

(Continued from page 825)

Neutra

Switzerland

797

“A reasonable expectation is that the channel of investment is relatively easy to engage, will be well maintained throughout to the next index at war end will not be more than 16%, above the pre-

Bids

Interest

The wholesale price index, at 1.09, after allowing for a proposed 10% rise from the pres-

instance, the more the gain, the more and 19% above 1928. Obviously, the gradual view is that the increase in the large-

the United States, were on the market in struc-

Previously, to the writer's knowledge, there is no text information that follows this.

Still Enough to Go ’Round Nicely...

In Moderation

Attractive Stock

Bleedle Whiskey 86 proof. 60% grain neutral spirit.

Schenley Distillers Corp., New York, N. Y.

Attractive Possibilities

The first mortgage 4% and common stock of Empire State & Tim Plate Co., offering attractive possibilities, is due to be offered in three installments, according to a memorandum being dis-

Schenley Royal Reserve

Interest

Great American Insurance Co.

The present interest rate at the present time according to a cir-

Stocky Interesting

Stocky Bros., Co. 5% preferred offers attractive possibilities, according to Reynolds, Chicago, and Co., 20 Pine Street, New York City. Copies of this interesting circular may be ob-

Situations of Interest

The current situations in The National Radiator Company and Public National Bank and Trust Co. offer attractive possibilities, according to memorandum being distributed by the banks, at 239 Broadway, New York City. Copies of these interesting memo-

Free Service

Still Enough to Go ’Round Nicely...

In Moderation

Schenley

Schenley Distillers Corp., New York, N. Y.

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"Our Reporter On Governments"

BY S. F. PORTER

There's a story around the main association of the savings banks has just recommended sale of all tax-exempt bonds held by these institutions and maturing before 1951 and reinvestment of the funds in New York City "short-timers" and New Jersey "long-timers." For these banks, such advice definitely makes sense. In fact, what's surprising is that as many of these banks don't act on it. For those companies which don't pay tax-exemption and are favored under the law certainly may benefit themselves by buying taxable, instead of the

The larger, more alert savings banks also have been on a selling program for the last several months. In the 30 or so of the largest banks, the amount of tax-free bonds bought has been relatively small, likely because of the high prices in the market. Insurance companies have been liquidating their excesses for months, are now already finished with the program, according to best reports. The bond

And the pressure on the excesses due up to 1951 may be traced to this source. That strain is becoming noticeable. Particularly on such issues as the 3½s of 1946-44, the 4½s of 1944-43, the 2½s of 1945-47, the 3½s of 1945-46, the 3½s of 1946-45 and the 4½s of 1947-47. And, all high-premium bonds, all with short maturity dates and necessary calls. And on a yield basis, a savings bank may look with envy at the return to be received on the when-issued 2s of 1953.

But what is most telling of this present rate is the chance

This gives to commercial banks and other institutions

that are up on some tax-exempt while the market is quiet and under

some disadvantage. Buying short-term excess isn't so smart...

... The need for constant roll-over is too great, and keeping

holding a balance on your own, it is getting a lot of the near

future seems too overwhelming... In addition, the premiums are on

a very high level, and the excesses have been in the market for

this period of dullness is something else again...

... While the market will be up to its high level of the near future the ex¬

2s

ings may not get anywhere... They're this pressure and the general

"sliding psychology" battle between now and September, that's the thing that they're holding up so well is surprising indication of their inherent strength... But buying for a quick profit or on a long-run basis are two different things.

And the long-term excesses still carry the same advantage to institutions bothered with their positions as they did three years ago, where everyone was bullish and praising the excesses as the order of the day...

THE DRIVE

In keeping with this operative (sale of bonds to non-banking investors), the official circulars governing the 2% bonds and the cer¬
ficates of indefiniteness contain an express request that commercial banks not purchase and that subscribers not trade in these securities (the 2s and cts) until ten days after the close of the drive, or until after the books close on an offering of the same or similar securities for the exclusive subscription of commercial banks for their own account shortly after the conclusion of the drive, whichever is earlier.

"Get the meaning of this, think back to the December financing... During that campaign, the banks received their privilege of authorizing first... Their books were closed and then for the weeks thereafter the banks simply purchased their allotments...

The market was "cautious" as a result of that procedure. For banks who didn't receive what they wanted of the December issues on subscription simply turned to non-banking friends and ordered whatever additional amounts they wanted through these mediums.

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Triumph Explosives

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Benidex Home Appliances, Inc.
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Majestic Radio & Television Corp.
Preferred and Common
Allen B. DuMont Laboratories, Inc.
Class A Common

Information on request

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40 NASSAU STREET, NEW YORK 5

TELEPHONE PHILADELPHIA TELEPHONE: BILL TELETYPE . WRIGHT 2,0000
EXTENSION 6001 NEW YORK 5, L 278

"They may paid up 1/22 or so for the assistance, but they

found that the market was approximately the same.

This time, non-bank subscriptions will be finished with before.

... And people who bought on the non-banking drive will

be unable to sell their bonds for at least two weeks what premiums are going to

exist on the various issues.

THE NEW 2s

These 2% bonds will probably be excellent for short-term and quick profit purposes. Judging from the way the outstanding 2s are remaining firm and from the general stability of the issues in the 1943-51 range for the last 10 years.

The 2s of 1953-51 are bid at 100.14, offered at 100.16; the 2s of September, 1952-50 are at 100.10, 100.12; the 2s of March, 1951-50 are at 100.02-100.09.

Another highly significant indication is the high quotation on the maturing 3½s of 1945-45, to be paid off through an ex¬

change offer also shortly after the close of the third war loan

drive (What a month for Government financing!)...

Many of these bonds are maturing at an extremely disadvantageous rate, to the extent of a minus yield of 4/32.

... In short, the holders of these warringers right now on a ½ point premium are only temporarily... and should hit some early date in August...

INSIDE THE MARKET

at the same time, when the market is between now and mid-September is slight...

Savings banks to some extent are liquidating the short-term ex¬

s, 3½s of 1945-45, 2s of 1953-51 bonds, which puts them right in there, and... folks getting better the 1955 issues and long term.

One dealer says he expects a "fluttery" market until September 15 at least... Good descriptive term...

Intermediates and shorts may go off, if slight reaction does con¬

inue, more than less. Do major selling pressure on long-term bonds, and short while there is some showing up on the recent shorting, and... may go off, if slight reaction does con¬

continue, more than less. Do major selling pressure on long-term bonds, and short while there is some showing up on the recent shorting, and... may go off, if slight reaction does con¬

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