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National Security Traders Ass'n Hold Their Tenth Annual Meeting

Reelect Wm. Perry Brown President For 1943-44

23 Local Groups Represented In Chicago

Members of the National Security Traders Association, Inc., at the closing session of their tenth annual meeting, held at the Palmer House in Chicago, reelected 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 include B. Winthrop Pizzini, B. W. Pizzini & Co., New York City, First Vice-President; Jerome F. Tegeler, Dempsey, Tegeler & Co., St. Louis, Second Vice-President; and Russell M. Dotts, Bioren & Co., Philadelphia, Treasurer.

Frank P. Meyer, First of Michigan Corporation, Detroit, and Henry J. Richter, Scherck, Rich-Co., St. Louis, were elected to the Executive Council. Other members of the Council are the officers, Thomas A. Akin, Akin-Lambert Co., Los Angeles, and Joseph W. Sener, Mackubin, Legg & Co., Baltimore.

Wm. Perry Brown

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" is given in full in these columns. The address by Patrick B. McGinnis on "Railroad Securities In The Post-War Era" is also given. A corporate forum was also held under the direction of Phil S. Hanna.

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

In This Issue

"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, first, are not too high; "second, that by the regulation of competition the deterioration in the rate structure . . . will level out, and stop; third, that the reorganization of 35 Class I 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 fourth, "that the increase in efficiency of railroading today as compared with what it was 20 years ago, has been tremendous." Mr. McGinnis, of Pflugfelder, 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 post-war era we have to make certain assumptions, and of course we cannot prove them."

Patrick B. McGinnis

"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 se-

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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 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 unprecedented phenomenon. And that the combination of demand deposits and money in circulation should more than double since 1939 without precipitating a dangerous "flight from the dollar," is a phenomenon

Benj. M. Anderson

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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, Mississippi and South Dakota have no jurisdiction over electric and gas companies. Thus, it is estimated that utilities serving 92% of our population are subject to effective state control. One of these commissions was established in 1853, and over half of them prior to 1900. While it is difficult to summarize their regulatory powers, practically all of them have 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.

Owen Ely

While the Interstate Commerce Commission was formed in 1887, as the first Federal agency to regulate public services, the business of railroads is essentially interstate in character which is not true of utilities, since practically all operating companies do business in only one state. And while it is true that, due to interconnections between generating systems to interchange power at times of peak load and other shortages, some 20% of the total electric energy generated for public use crossed state lines in 1940, which proportion is probably higher today, practically all this power was sold at "wholesale" by one utility to another for resale to consumers. Since it hardly can be compared with the interstate shipment of freight, there is little parallel between Federal regulation of "interstate commerce" and Federal regulation of electric power transmission.

The utilities acquired an interstate "flavor," however, with the

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

Sees Peace Time Operations Crippled In Event Of Increased Taxes

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 at Seattle Aug. 20 by Wilfred 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 co-operation 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."

"But," he added, "how can this be done while the Treasury is draining away the post-war earnings needed for reconversion reserves, and while the service departments of the armed forces are taking away such funds in renegotiations?" According to press accounts from Seattle, Mr. Sykes went on to say:

"Even now the Treasury is talking of increasing the corporate taxation instead of easing it. If that continues, our otherwise prompt return to peacetime operations may be crippled. We would have wage and job freezing, materials priorities, price ceilings and ration books indefinitely. And we would also have with us massive unemployment and 'made' post-war works, to increase the money seeking goods that are not there and aggravating the inflation threat.

"There can never be sufficient jobs until fair wages, fair profits and fair prices permit the making of more goods and services, still

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Coggeshall & Hicks To Admit Partners

As of Sept. 1, Coggeshall & Hicks, 111 Broadway, New York City, members of the New York Stock and Curb Exchanges, will admit Arthur A. Blaicher, Eugene S. Brooks, and Albrecht Pagenstecher, 3rd to general partnership in their firm, and Leland H. Ross, Jr., a member of the Stock Exchange, to limited partnership. All were partners in the Exchange firm of Marshall, Campbell & Co. which is dissolving on Aug. 31.

With the admission of the new partners, the firm name of Coggeshall & Hicks will be changed to Coggeshall & Hicks, Marshall, Campbell & Co.

C. F. Anderson With O'Melveny Wagenseller

(Special to The Financial Chronicle)

LOS ANGELES, CALIF. — Clarence F. Anderson has become associated with O'Melveny-Wagenseller & Durst, Inc., 626 South Spring Street, members of the Los Angeles Stock Exchange. Mr. Anderson was formerly in charge of the trading department at Searl-Merrick Co. and served in a similar capacity with Banks, Huntley & Co. In the past he was manager of the corporate trading department for William R. Staats Co.

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 City, on Sept. 1. Mr. Lamb was a partner in the firm of Marshall, Campbell & Co., which is dissolving on Aug. 31.

H. R. Kirk Inv. Co. Formed In Kansas City

(Special to The Financial Chronicle)

KANSAS CITY, MO.—H. R. Kirk has formed the H. R. Kirk Investment Company with offices in the Insurance Exchange Building to engage in a general securities business.

Associated with Mr. Kirk will be William K. Archer, formerly an investment dealer in Kansas City.

Granbery, Marache To Admit Charles Greeff

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

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Tomorrow's Markets Walter Whyte Says—

Market decline to July lows a reflection of State Dept. and Administration "muddling through." Prices near critical levels. All "buys" are to be accompanied by "stops."

By WALTER WHYTE

There are probably many reasons why the market bogged down last week and then instead of starting up fell down on it's face again. Some of the reasons will probably be found in the results of the Quebec conference; others in our Alice - in - Wonderland foreign policy.

* * *

The market in its own inimitable fashion tries to calculate what all these developments are and acts accordingly. If its action is confusing it is no more so than the strange cartwheels which the Administration is tossing when it makes deals with enemies and gives the boot to friends. How the whole thing will come out is of course anybody's guess. But if the manouverings—or rather the lack of manouverings — of the State Department and the President remain an enigma, the same can't be said of the stock market.

* * *

For the market merely reflects and anticipates decisions and events. And what it is saying right now is that it does not like what is going on behind the scenes. But markets do not anticipate or reflect the same events more than once. They merely give the warning and it is the public which acts when the news the market foresaw becomes common knowledge.

* * *

Last week (Tuesday) when the previous column was written the market was steady but lacked any get up and go. It was obvious that it was waiting for some clue, just what, was a mystery. It was almost certain, however, that the clue would not come from any fighting front. There have already been too many war developements that the market disregarded to make any nearby war news a market factor. It therefor depended on either (1) domestic news, or, (2) the Quebec conference. So far as domestic news was concerned there was nothing new. It therefor meant that what was happening in Canada between Churchill, Roosevelt and their cabinet officers would be the big news to have an immediate bearing on the stock market price structure.

* * *

Well, the first piece of concrete news we had came over the previous week-end when Moscow blandly announced that it was pulling its Washington representative out of the country. This could have meant any number of things but to the market none of them were good. The result you saw in the action of prices Friday, Saturday and Mon-

(Continued on page 826)

Gov. Dewey Declares Rights Of Labor Abridged By War Must Be Restored

Says Regimented Economy Of War Must Be Succeeded By Peacetime 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 relations of government to organized labor is not carried over into peace."

Mr. Dewey further stated:

"The hard-won rights of labor which have been abridged by wartime controls are as fundamental as freedom of speech and freedom of the press. Like these other rights, they must be restored intact to a people who have temporarily yielded them in the cause of freedom.

Gov. Thos. E. Dewey

"We can be sure of this only if we make certain that the regimented economy of war is succeeded by a peacetime economy of freedom under law. We can preserve it only in an economy of full production and full employment. For we can never, as a nation, 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 by the National Government which are foreign to our most vital principles. In fighting total war, we have learned we must 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 functions of collective bargaining. They have superseded private management, and, in some cases, have even taken plants away from their

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Some Thoughts On Post-War Prospects Of RRs.

In view of the recent tide of United Nations' victories on far-flung fronts and the growing conviction that peace is so much nearer, now is a propitious time to examine the post-war prospects for the railroads, so that a future course of action with regard to presently-held or contemplated railroad bond investments may be calmly decided, according to a bulletin issued by McLaughlin, Baird & Reuss, 1 Wall Street, New York City, member of the New York Stock Exchange, and prepared by W. Wendell Reuss, partner of the firm.

In looking toward the future the bulletin states that there may be a gradual conversion from war to peace-time activity, rather than a cessation of war activity at the one time, since it is likely that the Italian-German part of the Axis will collapse first, **thereby allowing peace by stages.**

To prevent riot and revolution abroad, a large part of our Armed Forces may be kept under arms, **thereby mitigating an otherwise possibly troublesome unemployment situation after the Armistice.**

Civilian and corporate bank deposits and government bondholdings currently materially exceed those of any pre-war year, coupled with which the backlog of civilian and business needs currently is very substantial.

(In connection with the latter observation, savings of individuals alone for the year 1943 are estimated at $43,000,000,000 vs. a level of less than $10,000,000,000 annually in the years prior to 1941, besides which the Department of Commerce has hypothetically projected a first-year post-war business volume—provided certain requirements are fulfilled—of $165,000,000,000 vs. the $97,000,000,000 volume for 1940).

Among the various industries accounting for an important part of the backlog, the auto industry alone may need to manufacture as much as 20,000,000 to 25,000,000 passenger cars in the United States before the post-war de-

(Continued on page 824)

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

Halsey, Stuart & Co., Inc., and associates on Aug. 24 offered an issue of $5,790,000 of Pennsylvania RR. 2¼% equipment trust certificates, Series N, dated March 1, 1943, and maturing in 15 annual instalments, 1944 to 1958.

Associated with Halsey, Stuart & Co., Inc., in this offering are Central Republic Co., Inc.; Ladenburg, Thalmann & Co.; Otis & Co., Inc.; E. H. Rollins & Sons, Inc.; L. F. Rothschild & Co.; Hallgarten & Co.; Hornblower & Weeks; Hirsch, Lilienthal & Co.; R. L. Day & Co.; Schwabacher & Co.; Edward Lowber Stokes & Co.; Bioren & Co.; Dempsey-Detmer & Co.; The First Cleveland Corp.; A. E. Masten & Co.; Heller, Bruce & Co.; Walter Stokes & Co., and F. S. Yantis & Co., Inc.

The certificates maturing from 1944 through 1953 are non-callable and are priced to yield from 0.65% to 2.05%, 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 yield 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 N Equipment Trust, a previous issue of $6,450,000 having been sold in February this year.

The entire Series N issue of certificates is to be secured by the following new standard-gauge rolling stock, to be constructed and acquired: five electric passenger locomotives, 51 steam locomotives and tenders, 30 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 80% loan.

National City Interesting

The current situation in National City Bank offers attractive possibilities according to a bulletin just issued by Laird, Bissell & Meeds, 120 Broadway, New York City, members of the New York Stock Exchange. Copies of this interesting bulletin may be had upon request from Laird, Bissell & Meeds.

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.

Shields Sees Steel Rise Accompanying Boom In General Business

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 bonds and stocks lost considerable caste during the 1930s because of the industry's drab performance after 1929. In five of the ten years 1930-1939, the industry as a whole lost money, and its average earnings on invested capital for the period were a meagre 1.8%. Of the many reasons for this showing, the two most important were relatively low rates of operations and increasingly keen competition.

"With these memories still firmly in mind, investors have been inclined to consider the wartime prosperity of steel producers as something essentially temporary, and to think of post-war prospects for the group in terms of the experience during the 1930s. At the same time, however, market appraisal of many other industrial securities has been on a much more liberal basis."

The survey points out that many changes are occurring in the steel industry during the war years which will affect its earning power after peace returns. Some of these changes are unfavorable, some favorable. Careful weighing of the pertinent factors suggests no reason for undue pessimism on the industry's future prospects, the survey contends.

"It is not the purpose of this study to attempt a forecast of probable post-war steel production or of general business at that time, the two being more or less synonymous. If, however, there is any truth in the frequently heard optimistic forecasts on post-war prospects for production of automobiles and other consumers' durable goods, of railroad equipment, oil field supplies, agricultural equipment, and building materials, as well as for export trade, steel production will not lag and the chances are that earnings of most companies should be satisfactory. It is unreasonable to anticipate a boom in general business, as suggested by predictions that industrial production after the war might be around 150 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.

Litvinoff Replaced As Soviet Envoy To U. S.

The Soviet Government announced on Aug. 22 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. The brief Soviet communique broadcast by the Moscow radio gave no explanation for the move.

Mr. Litvinoff returned to Russia for consultation last 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 issued by J. F. Reilly & Co., 111 Broadway, New York City. Copies of this circular may be had from the firm upon request.

Puget Sound Looks Good

Puget Sound Power & Light Co. 5% preferred w. i., and common w. i., offer an interesting situation according to a memorandum issued by Buckley Brothers, 1529 Walnut Street, Philadelphia, Pa., members of the New York and Philadelphia Stock Exchanges. Copies of this memorandum may be had upon request from Buckley Brothers.

The Securities Salesman's Corner

Bonus Compensation As Added Incentive During Sales Campaign

There is something about a race that is invigorating. The average salesman gets more than money out of his job, for one thing. Then, again, sometimes it's the fact that he always has to beat his own score in order to keep ahead of his job that causes many a man to stick to selling as a career. Good salesmen have a keen competitive urge—they like to meet a challenge head on—they become bored with routine.

That's why a competitive campaign is a good thing once in a while. Even though the men in your sales organization may be the most blase and sophisticated lot of securities salesmen in existence, they will enjoy getting into a friendly little scuffle among themselves to **see who is the best man for a month or so, even if they won't outwardly admit it.**

If you do set up a few bonuses for production, be sure every man has a fair chance. Don't put the star salesman in the same spot with the newer men, or those with the smaller production. Tie the idea up with a new customer campaign. Or grade a two months' production against what the same salesman did during a prior two month period. Put each man against his past score and see who shows the greatest percentage of improvement. In this way you make a real race out of it and the men themselves will immediately appreciate the fairness of such an arrangement.

As to prizes, make them worthwhile. If there is anything that most men enjoy it's a vacation trip, with expenses paid. We once knew a clever sales manager who told us that he never saw a salesman who was really successful who didn't get the urge to do a good job on one of these "prize contests" as soon as such a trip was announced. He said, the fact that he could go home and tell the Missus to pack her bags, that the boss was **paying for their trip** was enough in itself to make most salesmen get busy.

We also heard of another sales manager who used "prize contests" very advantageously to create business and build salesmen who always like to send his men to the finest tailors for their suits He said he would take a man who never wore fine clothes in his life and put him into a hundred and fifty dollar suit, and once he got the feel of wearing really good clothes, he acquired the urge to continue to wear them. A "prize contest" that will lead the salesmen to think of greater production, larger incomes and the kind of "more abundant life" which comes from intelligent, constructive work, is always worth what it costs.

Now is the time to set up your plans for business after Labor Day. A "sales contest" can always work in with any other campaign you may have in mind. Try it.

Railroad Securities

Following its spectacular gyrations in July, the preferred stock of New York, Chicago & St. Louis has recently returned to desultory trading substantially below the years' high. The speculative fever that gripped the stock for a time had been based in large measure on rumors that the management was going "to do something" about the dividend arrears which now amount to over $70 a share. These rumors persisted despite the fact that the management has consistently discouraged such hopes by stressing the necessity for making provision to meet the 1947 maturity of two underlying mortgages.

At the same time it was apparently considered possible in many quarters that the "something" to be done about clearing up dividend arrears would contemplate an offer of an exchange into Chesapeake & Ohio common. There would be sufficient logic in such a move (Chesapeake & Ohio has a controlling interest in Nickel Plate common now) to support the rumors. The most recent action of the stock, then, reflects the disappointment that nothing has materialized. While purchase at this time on hopes of a large dividend payment or on expectations of an exchange offer into Chesapeake & Ohio common appears inadvisable to say the least, the stock does have a considerable measure of appeal in its own right, and on the basis of the excellent financial progress made by the company in recent years.

Under the debt program the management has evolved it is quite possible that preferred stock holders might go through the entire war boom without any dividend return only to find themselves emerging into the post-war with a high grade preferred on which dividends could be earned and paid even in periods of depression. This would be a far sounder solution than would be arrived at by receiving dividends now but remaining uncertain as to the long term credit of the property and worried over the possible maturity problems.

The Nickel Plate management was one of the first in the railroad group to recognize the advisability of utilizing prosperity earnings to reduce its debt problems and the burden of fixed charges. While the fixed charges themselves had never been burdensome enough to threaten seriously the road's solvency, the company certainly had some uncomfortable moments over the question of debt maturities, notably the recurring problem of the unsecured 6% notes.

As a measure of what the constructive program has accomplished, fixed charges have now been reduced to an indicated level of approximately $5,600,000 compared with close to $7,800,000 supported in the depression of the early 30s. Even if the war boom in earnings is not to be prolonged for a further extended period it is expected that at least these obligatory requirements will be reduced to $5,000,000 before a readjustment period could set in. This should make the company virtually depression proof.

All maturities prior to 1947 have been cleared up and it is indicated that the 1947 maturities are now below $20,000,000. The unsecured 6% notes (extended to 1950) have been reduced below $3,000,000 and should be eliminated in the near future through operation of a strong sinking fund. There is one other $6,500,000 divisional due in 1950 but aside from that and regular serial equipments there is no other debt maturing for more than thirty years.

While railroad earnings as a whole have shown a recent tendency to fall off from the 1942 levels due to heavy tax accruals, Nickel Plate continued to report year-to-year gains even through July. The road was in the highest tax brackets last year so that comparisons this year are not so adverse as for the industry as a whole. It is expected, therefore, that net for the full year will top the $8,691,000 earned in 1942. At this rate it should not take long before the maturities of the next ten years are reduced to negligible proportions. With this background there is obviously ample basis for a constructive attitude towards the road's preferred which last year earned $24.10 a share.

Ohio Brevities

Sidney B. Congdon, President of The National City Bank of Cleveland, has just announced the appointment of **George Buffington,** former Assistant Secretary to Secretary of the Treasury Henry Morgenthau, Jr. as a **Vice-President of The National City Bank.** Mr. Buffington will take over his new post on September 14. In 1919 after serving as a Sergeant in France and later in the Army of Occupation, Mr. Buffington became associated with the Credit Department of The Central Trust Co. of Illinois in Chicago. About 20 years ago he joined Hayden, Miller and Co. of Cleveland later becoming Manager of their Columbus, Ohio office. From this position he went to Continental Illinois Bank of Chicago where he entered the Investment Department. He then became a partner of Eastman, Dillon & Co. Later he served in the War Bond Financing Division of the Treasury Department and took an active part in directing Victory Loan drives during his stay in Washington.

Heads Largest Akron Bank

E. S. Paterson, Vice-President of the National City Bank of Cleveland for the past 18 months, has resigned for the **Presidency** of the **First-Central Trust Co. of Akron,** largest bank in that district and 194th largest in the more than 14,000 banks comprising the Federal Reserve System.

Mr. Patterson, who is 48, came to Cleveland from New York City in 1921 to join General Electric and associated companies. Before becoming associated with National City, he was a Vice-President of the Cleveland Trust Co. for five years.

Mr. Patterson succeeded C. W. Enyart who resigned and plans to enter private business.

Makes First Public Offering

Smith, Barney & Co., Hornblower & Weeks and Field, Richards & Co. headed an investment banking group which offered 108,634 common shares of Hoover Co. of North Canton, O. Shares were priced at $22.50 per share. This was the first public offering of the company's stock.

The company, a manufacturer of vacuum cleaning equipment, announced it was offering to present outstanding 6% preferred holders the right to exchange them, on a share for share basis, for new 4½% preferred shares.

Doesn't Choose to Run

William S. "Bill" Jack, President of the fabulous **Jack & Heintz Co.** of Cleveland, has refused to run for Mayor of Cleveland. He rejected a move launched by a young Republican group in Cleveland to draft him.

"My first thought now is production. Maybe some day business will have to take a hand in government. We have a war to win first. I have no time for anything else," Jack declared.

Named to Capital Post

John P. Mullen, formerly publicity director of the **Chicago Mercantile Exchange** and onetime assistant educational director of the **Investment Bankers Association of America,** is the new **educational director** of the **Gray Iron Founders' Society of Cleveland** and will make his headquarters in the Washington office of the society.

J. K. Taggart was elected Vice-President and a Director of **Appalachian Coals, Inc.,** largest and oldest coal marketing agency in the country.

Otis & Co., Terminal Tower, Cleveland, have prepared an interesting circular on **National City Bank of Cleveland,** which they will be pleased to send upon request.

Cayne, Ralston & Co., Union Commerce Building, Cleveland, Ohio will send late information on **Hoover Co. Common** on request.

The Weil, Roth & Irving Company, Dixie Terminal Building, have prepared an interesting circular on **McCreary County, Ky. Road and Bridge Refunding 4% Bonds.** Copies of this circular may be had from the firm upon request.

Ohio Committee Named For War Loan Drive

CINCINNATI, OHIO.—Roy D. Moore, Ohio State Chairman of the War Finance Committee, announces that John J. Rowe, President of the Fifth Third Union Trust Company, Cincinnati, has been appointed chairman for the Third Area, embracing twenty-two counties of Southern Ohio. Howard H. Banker, C. J. Devine & Co., Cincinnati; J. W. Bannon, President of the Security Central National Bank, Portsmouth; W. H. J. Behm, President of the Winters National Bank and Trust Co., Dayton; Raymond F. Fletcher, The Portsmouth "Times," and J. Harry Veatch, Dayton, of the Mutual Benefit Life Insurance Co. of Newark, were appointed vice-chairmen.

Other executives of the Southern Ohio group, all of Cincinnati, are: B. J. Lazar, Federal Reserve Bank, Secretary; Gordon Reis, Seasongood & Mayer, Treasurer; W. Maxwell Fuller, W. E. Hutton & Co., Recorder; Louis L. Kaufman, Office and Supply Administrator; Charlton Wallace, Publicity Chairman.

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 $2,591,779,701 on June 30, 1943, as compared with $2,226,897,900 on Dec. 31, 1942, and $1,959,786,521 as of June 30, 1942. As of the same respective dates total holdings of U. S. Government obligations, direct and guaranteed, by the State banks in Ohio amounted to $1,375,241,944 on June 30, 1943, $975,157,233 on Dec. 31, 1942, and $697,798,400 on June 30, 1942. Finally, total loans as of such dates were as follows: $524,546,642 on June 30, 1943, $565,364,466 on Dec. 31, 1942, and $618,522,274 on June 30, 1942.

Ohio Municipal Comment

The outstanding event of the month in the Ohio Municipal market has been the sale yesterday by the State Teachers Retirement System. This fund received bids Wednesday for $3,365,000 of Ohio municipal bonds. All of the bonds mature in the years between 1943 and 1948, with most of them due 1944-47. Altogether the list included 92 blocks ranging in size from $7,000 to $320,000 par value.

Included in the offering were various issues of Akron city and school district aggregating $294,000 par value, Cleveland city and school district totaling $804,000, Cuyahoga County in the amount of $413,000 and Toledo city and school district in the amount of $363,000. Considerable interest, in Ohio at least, centered around the smaller blocks of various small school districts, many of which represent names that practically never come into the market.

It is too early to report the success of this sale, but in view of the very desirable maturities, the bonds should all be placed with little difficulty.

Supply Of Bonds Still Very Limited

Except for this offering there have been exceedingly few Ohio bonds shown in the market, despite preparations by many funds for subscription to the Third War Loan next month. Although many offerings of considerable municipals have been announced by funds throughout the country who do not need tax exempt income, and who therefore are selling municipals to provide more money with which to subscribe for government securities, nevertheless there have been remarkably few Ohios included in such offerings. This offering by the Ohio State Teachers Retirement System, because of the short maturities being sold, will be of little help in alleviating the shortage of bonds in this state, and what help it is promises to be of only a very temporary nature.

So far in the month of August, new issues sold by Ohio subdivisions have totaled only $130,580, with $88,900 scheduled to be sold next week. Early this month Muskingum County sold $45,000 bonds due 1944-48 as 1's at 100.475 to Halsey, Stuart & Co., with eight bids for 1% bonds. Port Clinton sold $21,900 of bonds due 1944-53 as 1¼'s at 100.488 to the Port Clinton National Bank, with six bids for 1¼'s. Lorain sold $59,380 of bonds due 1944-53 as 1¼'s at 100.83 to the Lorain Banking Co., a basis of 1.10% net with Braun, Bosworth & Co. submitting the second bid of 100.74 for 1¼'s, a 1.12% yield, and Halsey, Stuart & Co. the third bid of 100.54 for 1¼'s. On next Monday Shaker Heights School District will sell $10,000 due 1945-46, and on Tuesday Toledo will sell $78,900 due 1945-48.

With such a short supply and no help from institutional selling, it is no wonder that there has been no reduction in the bidding ideas for Ohios.

Banks In Ohio Are Buying Municipals

The recent report of W. L. Hart, Superintendent of Banks for Ohio, shows that deposits for state banks only in Ohio increased $364,881,801, or 16%, during the first six months of 1943. During the same period, holdings of U. S. Government securities by these

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Geo. E. Chapin Joins J. A. White & Co.

CINCINNATI, OHIO.—J. A. White & Company, Union Central Building, announce that George E. Chapin is now associated with their firm. Mr. Chapin started in the municipal bond business in 1914 with Sidney Spitzer & Co., Toledo, Ohio. Except for a period of 13 months when he was in the Army in World War I, he was continuously associated with this firm and its successors, Stranahan, Harris & Oatis and Stranahan, Harris & Co., until December, 1940, representing them as salesman in various parts of Ohio from 1920 to 1940. More recently he has represented Ryan, Sutherland & Co., in eastern Ohio.

Mr. Chapin is the author of various works dealing with the municipal bond business. He is the originator of the decimal system of interpolation of bond values.

Celebrates Decade

CLEVELAND, O.—Gillis, Russell & Co., Union Commerce Building, members of the Cleveland Stock Exchange, on Aug. 23 celebrated the tenth anniversary of the founding of their firm.

Municipal News & Notes

Tax relief legislation enacted for the benefit of servicemen by the various states this year includes a substantial number of measures covering the property tax field, the Federation of Tax Administrators reported August 10.

State legislatures granted real and personal property tax exemptions up to a certain amount or on certain types of property; frequently deferred collection of all taxes until after the war without interest or penalty; extended homestead exemptions, in many cases relaxing the residence requirement; and granted special protection to tax-forfeited land owned by servicemen or their families.

Property tax exemptions of $1,000 were granted servicemen this year by Connecticut, Idaho and Nevada, while New Hampshire allowed exemptions of $3,000 for totally disabled veterans, their wives or widows. New Hampshire in 1941 granted servicemen exemptions of $1,000 on their property provided the taxable property was not worth more than $5,000.

Mississippi made tax exempt the homes owned by men in the armed services, even though the homes were rented to someone else; Maine exmpted the estates of war veterans from all property taxes; Massachusetts exempted temporarily certain types of real property belonging to resident servicemen and their wives.

Michigan, North Dakota, Ohio, Texas, Virginia and Kentucky were among the states deferring collection of property taxes owed by servicemen until after the war, at the same time releasing servicemen from penalties and interest on the taxes. Illinois and Iowa legislation in effect gave servicemen the same relief.

To protect servicemen's properties receiving homestead exemptions several states, including Louisiana and Oklahoma, made service with the armed forces equivalent to residence on land receiving such exemptions. In this connection, Michigan extended to veterans of this war homestead exemptions granted veterans of World War I, a step taken by other states this year and in 1941 and 1942.

Several states took further steps to protect servicemen from tax delinquency proceeding against their property. Arizona, for example, exempted property owned by servicemen at the time of their induction from sale for delinquency until one year after the war.

Under a new Minnesota law, property owned by servicemen which normally would be forfeited to the state because of tax delinquency will be withheld from sale or conveyance; upon payment of delinquent taxes after the war the forfeiture will be cancelled. Also, Minnesota servicemen who default or can't pay installments on tax-forfeited land they are buying from the state may retain the property by filing an affidavit within 90 days after induction, and the contract will remain in force until six months after discharge of the servicemen from the service.

Similar legislation extending relief to members of the armed forces in regard to the income tax field has likewise been enacted by the States, the Federation reports. The two types of measures most frequently enacted were given as follows:

1—Exemption of servicemen's pay and allowances from personal income taxes, a step taken by at least a dozen states. Income from other sources, however, was generally not exempted. Arkansas, California, Indiana, New York, North Carolina, North Dakota and Wisconsin exempted all pay for service in the armed forces, with North Dakota also exempting pay of those in the merchant marine.

Minnesota and Oregon however, attached limitations of $2,000 and $3,000 respectively to income tax exemptions for service pay. Maryland exempted from her gross income tax all amounts received as a pension, annuity or other allowances for personal injuries or sickness resulting from military service.

2—Extension of time for filing of income tax returns for income other than service pay and allowances, usually for a period of six months after discharge or the end of the war. At least eight states—Arizona, California, Idaho, Indiana, Minnesota, New Mexico, North Dakota and Wisconsin—granted such six-months extensions. The extension was for three months in Maryland, however, and for 12 months in Wisconsin. Wisconsin, the federation noted, granted the extension to Red Cross and government officials traveling abroad.

In several states, including Montana and Vermont, collection of income taxes was deferred if the taxpayer's ability to pay is "impaired" or "materially affected" by the service.

For most of the states, interest and penalties will be forgiven on delayed income tax payments, though Arizona will charge 6% interest per year.

Service To Taxpayers

Since the new tax law now requires all investors to make quarterly payments based on estimates of annual income, with the risk of penalties for inaccurate estimates, it is essential that investors include accurate estimates of investment income with income from other sources. Buckley Brothers, 1529 Walnut St., Philadelphia, and 63 Wall St., New York members of the New York and Philadelphia Stock Exchanges, are offering a new service to investors, whereby if they are provided with a complete list of investments, an analysis of the quarterly income expectations therefrom will be placed in the hands of the investor; a copy will be retained by the firm so that when, as, or if, changes occur they will be recorded and the investor will be notified in time to compile the quarterly reports to the government. Further information on this service may be obtained from Buckley Brothers.

Situation Of Interest

Road and Bridge Refunding 4% bonds of McCreary County, Ky., dated Oct. 1, 1942, offer an interesting situation as tax exempt securities, according to a memorandum issued by the Weil, Roth & Irving Company, Dixie Terminal Building, Cincinnati, O., members of the Cincinnati Stock Exchange. Copies of this memorandum may be had from the firm upon request.

Ohio Municipal Comment

(Continued from page 786)

state banks increased $400,084,711, or 41%. Holdings of municipal bonds increased only $2,542,624, or 3%. It is interesting to note that during the last half of 1942, holdings of municipals by state banks in Ohio declined $3,471,248, so that total holdings of such bonds by these banks on June 30, 1943 were almost a million dollars less than a year earlier. Apparently, the banks have been buying municipals in greater volume this year, but yet not enough to offset their losses of such bonds during the latter half of 1942.

Anent bank deposits, it is quite interesting to note a report of the trend of demand deposits of country banks recently released by the Bureau of Agricultural Economics. This report is based upon data reported by member banks of the Federal Reserve System located in places of less than 15,000 population. The report shows that these demand deposits in country banks in the seven corn belt states, in which Ohio is included, had risen to 309% of what such deposits averaged in the years 1924-29. A year earlier such deposits were 203% of this base.

Bond Sales Unaffected By Pay-Go Taxes

Secretary of the Treasury Morgenthau was reported on Aug. 19 to have said that the new pay-as-you-go taxes have not interfered with purchases of war bonds and to have expressed satisfaction with bond sales.

In July, the first full month of the withholding tax program, it is reported that bond redemptions totaled $138,243,000. 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. Edwards & Sons, as of Aug. 13.

John J. Anglim retired from partnership in W. E. Hutton & Co., New York City, on Aug. 16.

John F. Clark retired from partnership in Newburger & Hano on Aug. 19. Mr. Clark made his headquarters at the firm's New York office.

York Corp. Attractive

Common stock of the 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.


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.
Over There
it's a question in every man's mind
Over Here
people are looking for the answer
ARMY E NAVY
Awarded to Huntington Works
Herbert Bonnert

National Security Traders Association

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B. Winthrop Pizzini

President

Wm. Perry Brown

2nd Vice-President

Jerome F. Tegeler

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EXECUTIVE COUNCIL

The Executive Council is composed of the officers and the following members

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Frank P. Meyer

Henry J. Richter

Joseph W. Sener

COMMITTEE ON ARRANGEMENTS

Leo J. Doyle

L. A. Higgins

Henri P. Pulver

Chairman

Edward H. Welch

Ralph G. Randall

Richard W. Simmons

T. M. Wakeley

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

Joseph W. Sener

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 members 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.

Joseph W. Sener

EDWARD D. JONES

In the Middlewest conditions are prosperous, crops are good, railroads are operating at capacity, and industry is running night and day. Money is easy and plentiful.

Edward D. Jones

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

Edward D. Jones

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

Willis M. Summers

which they have done, and felicitate 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.

With a minimum of fanfare, NSTA has been active in all matters which affect over-the-counter trading, and under the leadership of W. Perry Brown, and his official family selected for next year, I feel confident that this work will continue to the benefit of the trading fraternity.

Willis M. Summers

J. GENTRY DAGGY

From my own past pleasant knowledge and experience, I am certain that what the Chicago

J. Gentry Daggy

meeting lacked in numbers, as contrasted with pre war years when a 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.

In my opinion, the ten-year history of the National Security Traders Association stands as a testimonial to the organization's virility and usefulness of purpose. Founded on sound basic principles and administered by able officers whose integrity was always above question, the NSTA has progressively enlarged its scope and influence. Perhaps the one outstanding and continuing contribution which the NSTA has made to the betterment of the business is its ceaseless campaign toward educating crack-pot proposals into oblivion. Well-armed with factual knowledge and fortified with a high sense of responsibility, we stand ready to accept the challenge of whatever the future brings.

J. Gentry Daggy

HENRY J. ARNOLD

It is gratifying to all of us to note that, in spite of adversity

Henry J. Arnold

which has plagued our industry since the National Security Traders Association was conceived, that our staunch-hearted membership has overcome numerous obstacles, and today stands as an institution for which it was designed: the public good. We can all be proud that through cooperation our membership has fostered a major contribution to our industry.

It is natural to assume that this spirit will be furthered under the incoming administration and that we can look forward to continued progress in our constant effort to maitain the high standards of our profession.

Henry J. Arnold

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 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 since carried on so well. I ex-

W. W. Cruttenden

tend my sincerest good wishes to our members and my best wishes to the new officers for a successful administration.

Walter W. Cruttenden

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.

Working with Perry Brown and the other officers of the Organization this past year, has been one of the greatest pleasures I have

Earl M. Scanlan

had. 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.

Earl M. Scanlan

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-

B. Winthrop Pizzini

tant factor in the security business, representing as it does the combined thoughts of its many members located throughout our country.

Your officers have given unstintingly of their time and effort in your service. It is my sincere wish to be able to live up to the splendid example which they have so ably set.

B. Winthrop Pizzini.

JEROME F. TEGELER

I thank the members of the National Security Traders Association for the privilege and honor of serving them as Second Vice President for the ensuing year.

A great amount of work has been accomplished by Perry Brown and his associate officers during the past year. The re-

Jerome F. Tegeler

nomination of Perry Brown for President during the coming year in my opinion is a selection most wisely made for the benefit of the NSTA, and I am sure that the

(Continued on page 794)

Presidential Greetings

Wm. Perry Brown

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 Committeemen 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 and boosters for their contribution in making this special N. S. T. A. news edition of the Commercial and Financial Chronicle the most successful number published since the inauguration of the convention and news issues 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 Seibert, 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 untiring and unlimited cooperation the National

Harold B. Smith

Advertising Committee received this year.

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

Harold B. Smith,
1942-1943 NSTA
Advertising Chairman.

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 payrolls 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 governments 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 tangibles.

Carl H. Chatters

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 centers of our large cities.

"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 them in carrying investment real estate 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 increase as would commodity prices. The amount left for debt service would be too small—as it was from 1930 to 1933—and there would be defaults and delays. Further, the Federal debt would be hard to pay if levels of wages, prices and taxation were lowered. We 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 as it did through PWA and RFC." He said he personally 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 refunding instead of paying off debts and they may have peak maturities of 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 payable 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 gaze into the crystal ball and tell you what it protends for municipal finance in the years immediately following the war. But the ball which seemed crystal becomes cloudy when 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 befogged windows of the present. Perhaps this view of the past and present will sharpen our eyesight for a glimpse at the future.

Municipal finances may now be studied intelligently only when related to the entire economy of the country and to the finances of other governmental agencies, Federal, 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 government financial problems—and these social and economic movements 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 eveyone must have as much education as possible, to the invention of the automobile and to the modern ideas with respect to care for the ill, the hungry, the unemployed and the aged. What a transformation of local expenditures has taken place because of this one physical contrivance and these two social ideas!

Now look out the plate glass window at the past.

II. The Background of the Past

Fifteen years of growing federal relationships to municipal financial affairs, vastly increased state revenues, and superficially improved local finances, are just behind us.

The above is illustrated by the fact that expenditures from federal emergency relief appropriations from April 8, 1935, to June 30, 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 expenditures when it is realized that most of the expenditures were in the form of payroll.

A hodge-podge of governmental activity and governmental revenue sources has developed between the federal, state and local levels with little relationship between the unit of government assigned 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 decade of improved tax collections, decreasing state and local debts, but there has always been a feeling that a crisis is just at hand. Most cities have improved their financial position since 1932 but there are many others which are at least as vulnerable to economic change as they were in 1929.

To illustrate. In 150 cities over 50,000 population median year-end tax delinquency was

26.35% in 1933 but was reduced to 6.0% in 1942. Accumulated tax delinquency (median) for 128 cities was reduced from 48.4% of the current levy in 1935 to 25.5% in 1942. Local debt has remained fairly constant for ten years between $16,300,000,000 and $16,800,000,000, but has been declining. State debt has fluctuated between $2,900,000,000 and $3,200,000,000 and is now decreasing. New York City alone had a net debt of $2,385,111,000 on June 30, 1943, which was more than double the national debt in 1902.

The increase of state and local expenditures between 1932 and 1941 is significant. Thinking casually we might have assumed that there would have been a decrease during this period. As a matter of fact, local expenditures, exclusive of debt retirement, increased from $6,319,000,000 in 1932 to $6,783,000,000 in 1941. The increases were represented by overhead costs, protection, schools, libraries, recreation and welfare. The decreases were in expenditures for highways, health, and sanitation. But the most significant increase was in the amount of state expenditures, which in 1932, exclusive of debt retirement, amounted to $2,495,000,000 and by 1941 had increased to $5,375,000,000. Practically all expenditures for state purposes increased but the greatest proportionate increases were for protection, welfare, schools, and fiscal aid.

Rapid extension of local retirement or pension systems has taken place in the last five years stimulated by the Federal Social Security Act in which public employes do not participate. Nor must we overlook the entry of public employes into the ranks of union workers. Without intending for a moment to criticize, it is correct to say it will have a bearing on municipal expenditures.

As a tribute to local governments: They have a record of payment of their debts which cannot be equalled or approached by any general class of security except the obligations of the United States Government. In spite of a few refundings and scalings of debt, and in spite of some delays in paying principal or interest, the municipal bondholders in the aggregate suffered negligible losses. And there is every reason to believe that the present outstanding municipal obligations will have at least as good a record in the years following the war.

A generation of continuing technical improvements lies behind us. There have been beneficial changes in financial planning and procedures, in accounting standards and practices, in municipal debt administration. Municipal financial reports, while leaving much to be desired, are vastly better than they were from the standpoint of content, reliability and appearance. Budgeting methods have been developed and manuals of procedure are becoming common. Perhaps the most significant and apparent improvement has been the higher level of ability and knowledge of the individual municipal finance officer. If this picture of improvements seems too rosy, just look carefully at the record of fifteen or twenty years ago.

Where has this record of change brought us?

III. Present Conditions That Determine The Future

What are the important factors in the present economic, social and governmental structure that tend to influence municipal finance in future years? Here we must be more specific than we were in looking back.

Several general economic elements affect municipal securities. The volume of federal debt and the extension of federal income taxes must necessarily exert some pressure on local debt and on the ability of the individual to meet his local taxes. The federal debt, of course, is related to the monetary system, world or national, while state and municipal debt is more like private debt.

Recurring efforts to tax the income from municipal securities periodically upsets the market and is a conscious factor in large scale municipal financing. The desire of some federal agencies or individual employes to control municipal borrowing is at least annoying. Prevailing low interest rates are giving states and municipalities the opportunity to refund existing debt at lower rates and also permit trust, sinking and investment funds to take a substantial profit on holdings of municipal securities.

The future expenditures of municipalities will be influenced by the desire of people for leisure and a better place to live. If the social philosophy and economic 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 several important factors including the development of public "authorities" and the more extended use of revenue bonds. Care must be exercised to prevent abuses of either. The volume of new issues of municipal bonds has greatly decreased as you know. Sales of new issues in the first six months of 1943 were about a quarter of a billion dollars compared with a ten-year average of more than twice that amount for the same period. But taking the "Bond Buyer's" figures for June, 1943, alone, total issues of $58,000,000 included $50,000,000 of refunding bonds, leaving a mere handful of new and original issues.

The current financial position of municipalities is generally strong. That is to say, short term borrowings are unusually low, tax collections are good, and operating budgets are balanced. If this condition continues, municipalities will enter the post-war period stronger than they entered the depression period following 1929. About twenty states now have laws permitting municipalities to set up reserves for post-war uses.

The effect of war employment and war expenditures has been decidedly "spotty" insofar as municipal finance is concerned. Conditions have been created in some areas that will be difficult to meet when war industry and the armed forces demobilize. Some areas have been greatly expanded in population, private payroll, and public services. Other communities, many rural and semi-industrial, have remained unchanged.

Growing resentment against the local property tax, the increasing volume of tax exempt property, including that publicly owned, and the deteriorating of the centers of our large cities—these three elements, all centering around real property, present the greatest questions at the local level. The property tax is resented more and more by owners of real estate because the tax does not reflect the ability to pay. No longer can owners feel that increasing property values justify them in carrying investment real estate at a loss. Tax exempt property has increased in volume by federal purchase of land, local acquisitions by tax foreclosure, and liberal interpretation of exemptions for religious, charitable and educational purposes. To illustrate, the state tax commissioner of New Jersey, when directed by the Legislature to investigate in 1938, found exempt property in that state alone valued at more than $1,000,000,000. The problem is not lessened by the fact that three-fourths of this property is publicly owned for the local governments have to perform many services required by state and federal properties.

But the greatest menace to the 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 the suburbs. In the city of Milwaukee, according to Thomas A. Byrne, tax commissioner, assessed values of property, from 1930 to 1942, declined 16% or $141,574,110. Of this loss 58.4% or $82,171,010, was in the downtown area alone. Milwaukee is no worse off than scores of other cities. There are, in the United States, 140 metropolitan areas, each having one or more cities of 50,000 population or over. These cities contain more than half the people in continental United States. Between 1930 and 1940 the population in the central city in 34 of these 140 areas **decreased** while the population in the surrounding area increased. In two cases both the central city and the surrounding area declined in population. In 88 more cases, the area outside the central city or cities grew faster than the central city. When individuals and industries desert the center of a city it looks pretty bare. Values fall, rents decline, buildings deteriorate, and slums develop. The remedy requires the utmost in public and private cooperation in planning and financing. At the moment this seems to present the major problem for the municipal authorities and property owners in areas representing half of our population.

The assessed valuation of properties has not been increasing during the period of recovery. As a matter of fact, the downward trend has continued. This is significant at a time when prices and wages are going up. The assessed valuation of property in the United States in 1932 was $163,000,000,000, but in 1941 this had declined to $144,000,000,000. Even now, two years later, there are indications that assessed valuations will either remain about constant or continue downward. Bear this in mind when considering the property tax as the chief source of municipal revenue.

IV. Municipal Finance—Post-war

War or no war, many conditions have been accruing which inevitably would have changed municipal finance. Some of these conditions have just been enumerated, others will follow. The impending post-war conditions or events which, in my judgment, may come about, are divided here into three groups: those that just seem to be true and are labeled neither desirable or undesirable; those that are undesirable; and finally those that appear desirable socially or in the interest of better municipal finance. Before drawing the post-war picture, may I suggest that the problems of municipal finance, as stated by Dr. C. E. Merriam, hinge quite generally around the simple question, "What are urban functions under modern conditions?" If we were free to answer that question we could foretell the future with greater accuracy. For when new tasks are added to our municipalities, the need for financing becomes 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. 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 employes would necessarily increase, as would commodity prices. The amount left for debt service would be too small, as it was from 1930 to 1933, and there would be some defaults and delays. You also may expect continuing high levels of prices, wages and taxation. Government control of business will continue, not because you nor I want it, but because such controls may be necessary to prevent a flash boom followed by depression. Furthermore, the Federal debt would be hard to pay if levels of wages, prices and taxation were lowered. Nor should we be naive enough to think that public works alone will solve the employment problem in the post-war era.

Will post-war public works bring a flood of new municipal bond issues? Yes, some, but the volume will not meet pre-war levels or pre-depression levels unless the Government creates a market as it did through PWA and the RFC. The volume of new issues will be restricted by the use of reserves that have been created and by the more general adoption of pay-as-you-go policies of financing. There will of course, be a repetition of the old pressures for over-expansion of facilities and expenditures in the form of streets and sewers, air transport and welfare. Again much depends on whether or not the national government extends credit or aid, directly or indirectly, through such agencies as the RFC, PWA, or HOLC.

Following the war there is bound to be a tremendous expansion of large scale housing projects, both public and private. The effect on local finance will depend on the policies with respect to subsidies. Very great expansion of public housing, on a tax exempt basis, would throw a further disproportionate share of the cost of local government on the remaining taxable property. A sound policy for housing finance should be determined now.

Perhaps there will be no problems of municipal finance. Unless there is a decided trend away from centralization of revenues in the Federal and State governments, and unless local governments retain their vital activities, there will be no problems for the local governments for they will have neither revenues nor expenditures.

Certainly there will be a realignment of activities or functions between the different levels and types of government. Accompanying this, there should be, and I hope there may be, a change in the local revenue system so that the industrial cities and all the large cities, may levy revenues responsive to local community income instead of revenues based primarily on capital values. This may mean wage taxes such as Philadelphia has; it may require regional sales taxes; or it may mean taxation of tenants or occupants.

Some troubles are bound to appear in the post-war era. There will be a great reshifting of population; either that or the war boom cities will find themselves with great masses of unemployed. Perhaps both will happen. What will the people do who have flocked to Norfolk, San Diego, Portland, and Detroit? That will be determined partly by individual whims and partly by plans of industry for conversion. War industry cities may be more sound

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Municipal Finance In The Post-War World

(Continued from page 793)

after the war than they were before, or they may be deluged by unemployed.

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 civilian workers "for the duration and six months." Will they willingly go back home? Thousands of veterans will return to the public positions which they left to enter the armed forces. Will the persons who did their work be released? Other veterans will press for public jobs with "veterans' preference" under civil service laws as an entering wedge. Some Federal employes can properly return to State and local governments. (The college professors may return to their teaching!) There will be actual need for large numbers of employes to do the public construction and maintenance that has been delayed by war. Reconversion subsidies may help. And finally, the whole scheme of industry for full employment may be developed far 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 debts will be paid in the post-war era as well as they have been in the depression era, probably better, because there are less bonds outstanding of the types that caused 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 tax municipal bonds. New markets would have to be found for the securities. Have you considered what this market would be and can you prepare for it now?

Two important policies would help municipal finance. First, there must be non-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 not that wise from 1930 on and the efforts of the Federal Government to create employment through public works were just about neutralized by the curtailment of work by State and local government. 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. Hit-and-miss developments require 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 it may be used as the excuse for "sloppy" 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 out 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. Just two ideas are enough. 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 which makes no conscious 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.

Lt. 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.

Greetings From NSTA Officials Past-Present

(Continued from page 790)

policies and work of the previous administration will be continued by the new officers.

I do sincerely appreciate this opportunity, and at this time pledge my whole-hearted support to my fellow officers and the NSTA.

Jerome F. Tegeler.

RUSSELL M. DOTTS

It is, indeed, a privilege as well as a pleasure to be able to serve an organization which has proven itself over a period of years to be an integral part of our industry. We also have had an opportunity to prove our ability to cooperate with and serve our country when called upon to do so, with our whole hearted support in the recent bond drives and in continually urging the purchase of Government securities.

Russell M. Dotts

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 hearted 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.

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 united with our country in aiding 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 aiding in the war loan drives and in government agencies to bring the war to the earliest conclusion possible.

Edward H. Welch

Since its organization in 1934 the National Security Traders Association has done much to maintain the high standards of trading in the over-the-counter markets and has worked consistently for the general welfare of the business.

We shall continue to realize our responsibilities and to pledge ourselves to work together for the common good.

Edward H. Welch

Cotter Heads Division Of Third War Loan

William E. Cotter, counsel for the Union Carbide and Carbon Corp., has been named Director of the Commerce and Industry Division of the Third War Loan, it was announced on Aug. 14 by W. Randolph Burgess, Chairman of the War Finance Committee for New York State. The aim of this division, Mr. Cotter explained, is "to bring the rank and file personnel in business houses and manufacturing plants face to face with the vital need of money to 'Back the Attack' of our boys overseas—money which is merely loaned to the Government and which will be repaid with interest. We will seek to impress the various groups with the necessity of investing in war bonds, not only to help our war effort, but to help themselves," he said.

The program of the Commerce and Industry Division of the Third War Loan was outlined by Mr. Cotter at a luncheon of business leaders at the Union League on Aug. 16. Mr. Cotter was Chairman of the chemical group of the Commerce and Industry Division in the 1943 Red Cross drive, and for two years was General Chairman of the Greater New York Fund, in addition to his various directorships on hospital boards and charitable agencies. Another war activity is the Chairmanship of the Selective Service Board at New Rochelle.

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Kratzer, David C.
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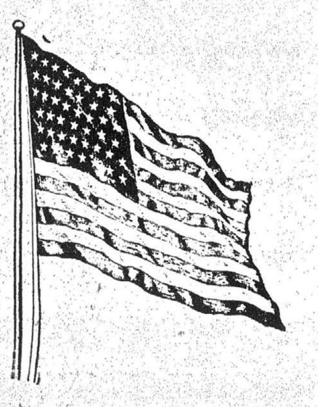

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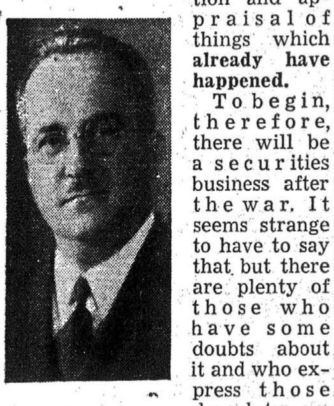
The Securities Business In The Post-War Period

By W. W. TOWNSEND
Townsend-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 prohpecy. It does **not** purport to be a post-war "plan." It is merely the expression of some opinions which have crystallized into sincere convictions and which have as their background nearly thirty years of active participation in the securities business, with practical and factual research an avocation which since has become a most 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.**



W. W. Townsend

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 1900s, as glamorous as in the post-World War I period, as completely cockeyed as in the late 1920s, as discredited as in the 1930s nor as chastened as in recent years. But, as nearly as anything can be stated regarding the future with complete confidence, it can be stated that the securities business will be there.

The reason it will be there will not be any high-brow reason such as its valuable contributions to America's previous prosperity nor the fact that the finance industry, of which it is a part, is the greatest middleman industry ever to have been invented and should not be destroyed. All those reasons were well known to those who really would have liked to abolish "Wall Street"—and the answers were all ready. No, the reason why the securities business will persist is because it is now, and will continue to be, an **essential industry.**

Suppose we take that apart. It **could** be the observation of a biased observer and hence have no value—and carry no conviction.

Currently, the contribution of the securities business to the winning of the war is one of those phenomena which will be adequately appreciated by the historians, as will the contribution of industrial management. It is going on before our eyes but is getting almost no credit—currently. It is being properly appraised, however, and as long as the need for extensive Government financing persists, which may well be longer than the war persists, the securities business will continue to be an indispensable luxury to some of those in high places and an absolutely necessary adjunct to the activities of others, notably the Federal Reserve Banking System which is now the greatest syndicate manager in all 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 a 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 fable concocted by every other "ism" ever started, but it, too, will be "there"—not because Wall Street succeeds in accomplishing its nefarious purpose, not because the Republicans have "thrown the rascals out," not even because we have decided to remain 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 a conservative is somebody 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 overcomplication—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 they once believed so impilictly in is 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 "policing" 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 its solution when he coined the phrase "lunatic 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 to 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 "tradeouts" which contriubted 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 days of yore 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)
curities created by the reorganization of the various companies were better than the junior securities of the unreorganized companies, for obvious and easily provable reasons.

"However, today the public is judging railroad securities—the good ones, the so-called borderline ones, the reorganized ones—as war babies, and it is with this psychology that we now have to compete as dealers and as investors 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 increased the earnings of railroads. You see, railroad securities for the last thirteen years, let's say the last ten years prior to 1941, were subject to the fear of bankruptcy. That thing was not the cause, but that was the thing that gave railroad 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 discounted the effects of war.

"I claim they have not, for reasons 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 historical record of ten years, from 1930 to 1939, when 35 Class I railroads 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 own some corporate securities. By that I mean industrial stocks or utilities or industrial bonds or utilities.

"If you have clients 100% invested in cash or municipals or governments, what I have to say will probably be of academic interest. Therefore, I am trying to point out in the beginning that we should stop isolating railroads.

"You would think, the way people talk, that the railroads have the only problems after the war, and the industrial stocks and utilities 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 any predictions 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 what 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 throughout the country that almost all of those interested in rails take a negative position. We are always trying to defend the rails. I have tried in various ways to change that to a more aggressive spirit, and I hope this afternoon to add a little fuel to the story and perhaps cut down this terrific sales resistance against rails generally.

"Another fundamental to start off with is that if you people realize that if you compare the railroads with your various other industries—well, let me put it this way: Last week I said, "Suppose you owned industrial stocks; suppose you wanted to buy some industrial stocks. Which ones would you buy, and why?"

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

Take for example all the steel manufacturers in 1934 — these figures are from the SEC comprehensive reports on listed securities—saved 1 cent out of each dollar. 1934 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 automobile 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 5 cents; agricultural machinery, 10 cents; department stores, 3 cents. The only industry in 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 1935, 1936 and 1937. 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 was wrong with the other industries. The thing that licked them, of course, was the tremendous amount of fixed charges.

"To make some of those statistics which I just gave you a little more alive, all your automobile producers in 1937 did a gross business of about $2,700,000,000. The railroads did a gross business of $4,100,000,000. However, the amount saved by the railroads in 1937 was 17.8%, or $744,000,000. The automobile industry, in the meantime, saved 10%, or $280,000,000.

"In 1934 with a gross of $3,200,000,000, the railroads saved $666,000,000, or 20%. 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 $1,200,000,000. The railroads had a gross business of $3,200,000,000. The railroads saved $666,000,000, or 20%, and the steel industry saved $12,000,000, or 1%.

"In 1937 the steel producers did a gross business of $2,800,000,000 against the railroads' $4,100,000,000. In that year they saved $229,000,000, or 8%, and the railroads $745,000,000, or 17.8%.

"I repeat, then, that in my opinion the railroads, by comparison with other corporate securities, are good business risks provided the financial risk has been removed.

"Subsequently I tried to develop the fact that this peculiar fear of bankruptcy which was in the railroads and not in the steel producers, the automobile producers, and so forth, is the psychology that makes them now war babies. To use the stock of a company which was not reorganized, like Southern Pacific, how can it sell a $25 share, earn $25, and pay only $2, and be called a war baby? 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 $26 that they were earning, then I would agree with the public that perhaps there should be a danger of having discounted war earnings. But I do think the fear the public has of 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 railroad not now in bankruptcy, over the next five, six or seven years.

"And if that is so, then the present prices of railroads are overly discounting not 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 fiduciaries, banks and insurance companies. For 75 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, these old-time buyers once again come back in the market and buy the first mortgage bonds and the income bonds of the reorganized companies.

"So you recreate the situation
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"Railroad Securities In Post-War Era"

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where you have more buyers than sellers, and during that spread between securities in bankruptcy and securities reorganized into 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 are not too high; second, that by the regulation of competition the deterioriation in the rate structure, which started years ago, will level out and stop; third, that the reorganization of 35 Class I carriers, plus the debt reduction program of the solvent carriers, will remove the financial risk by reducing fixed charges over 40% for the Class I railroads as a whole.

"Fourth, that the increase in efficiency of railroading 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 from 1930 to 1940 was a blessing in disguise in introducing efficiency into railroading never before known.

"And last, but not least, as I said in the beginning, the railroad problem after the war is relatively no greater, and I think actually less, than that involved in a 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 averages on rails in 1932 was 36. 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 of 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 averages in the years 1918 and 1919 ranged 74 low and 93 high.

"Second grade bonds, Dow-Jones averages, are now selling around 60. The high in 1937 was 98. Are they discounting the war earnings, selling 30 points below, 5% bonds selling at 60, yielding 8, 9 and 10%? 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, where there is definitely no danger of bankruptcy, sell to yield 8, 9 and 10%.

"In 1929 the high in the Dow-Jones rail averages was 109. In that year they did $8,000,000,000 gross business. Today the stock market averages for rails are selling at 33 or 34 while the roads are doing close to $8,000,000,000 gross. In 1938 the Dow-Jones averages sold at 34, with $3,000,000,000 gross.

"Take Rock Island, for instance: All these figures are excluding equipment, because equipments are usually paid off through amortization of equipment or cash account, anyhow.

"Rock Island securities, a par value of $321,000,000 are selling in the open market today for $88,000,000. And yet the cash which the trustee has is or will be equal to (before the end of the year) $88,000,000. Last year they earned $36,000,000, 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 5% on your invested capital 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 $6,000,000 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 bonds. If there is no danger of bankruptcy, and you can buy an income bond to yield 8 or 9%, or a bond of a solvent company which was not reorganized on an 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 doesn't stay at one price: It ranges 40 or 50 points in the course of a year for a million different reasons.

"I could give you the same comparisons in the Frisco and New Haven and St. Paul and Northwestern pictures.

"This is as much time as I am going to take on this particular subject, but I repeat again: I think current prices are discounting the most dismal future the railroads ever had, and as far as solvent bonds are concerned, selling on 9% basis, they are discounting the possibility of bankruptcy, and in my opinion there is none.

"It is true, of course, that the railroad position has changed from one of monoply to one of competition. Competition came in in the form of trucks and buses and automobiles and pipelines and barge lines, and so forth. Unfortunately the railroads in some cases were not allowed to organize buses and trucks, and also unfortunately, for the first fifteen years of their existence these competitive forces were virtually unregulated.

"As a result there came this terrific deterioration in the average rate that the railroads received for carrying traffic. It came about, of course, because the railroads retained the heavy stuff, the ore and the coal and the steel, and they lost a great deal of the high-class merchandise to trucks who in their early existence could pick and choose and make their own rates, and so forth.

"It was not until 1935 that the ICC and Congress recognized that they should be regulated, but it was not really until 1939 that we had any real regulation of competition. We now have the normal forms of competition.

"This rate decline, plus depression costs, reduced the railroads from a $6,000,000,000 average business in the '20s to a $4,000,000,000 average business in the '30s. But, strangely enough, the thing that ruined railroad credit was the bankruptcies. It was not necessarily the rate decline.

"The tremendous difference in railroading generally overlooked, I think, is brought out when I attempt to prove that the rate decline was the primary reason for this change in the railroad industry.

"Take two year periods, 1928 and 1941, when the railroad business was about the same, measured in ton-miles and passenger-miles, around $528,000,000,000. Yet the gross in 1928 was $6,000,000,000, and for the 12 months ending September, in 1941, it was $5,000,000,000.

"Now, if railroad managements were not able to absorb that decline in gross through more efficient methods, obviously if their net went down a billion dollars they would have been actually, as an investment, all through. They not only would not have covered their fixed charges, but they would have had an operating deficit of tremendous proportions.

"But despite the fact that they did lose a billion dollars doing the same business, you understand, their gross was off a billion dollars for those two comparable periods.

"The net railway operating income in 1928 was $1,100,000,000 and in 1941, for the 12 months ending with September, 1941, the net railway operating income was $990,000,000. Management absorbed all but $100,000,000.

"How did they do it? In hundreds of ways, but, generally speaking, of course, by these increased efficiencies.

"They reduced transportation expenses alone by $413,000,000. Understand, now, they are doing the same business, and yet the cost of carrying that business was $413,000,000 less.

"In 1928 they employed an average of 1,660,000 men; in 1941, for that comparable period, they employed 1,140,000 men. In other words, they did the same business with the use of 520,000 less men.

"I know you are going to ask: 'How about the compensation?' The compensation in 1928 was $2,800,000,000; in 1941, for that period, it was $2,300,000,000, a decrease in total compensation of half a billion dollars.

"When you see these figures analysts talk about (and it has been true not only of the good ones but the questionable ones) they come out and say railroads are under the additional handicap of not being able to control wages like industry generally.

"Don't you believe it! Railroads are in a better position, in my opinion, and I can prove it in detail at the open forum later, if you want to hear it, than industry generally.

"The managements, therefore, helped to absorb this rate decline. Well, why didn't it save all the railroads? For reasons that I will tell you about.

"In this country there are about 137 Class I railroads, but if you have heard me talk before you have heard me say that 10 railroads do about 50% of the business and 56 railroads do about 95% of the business. So, in discussing the cure of the financial disease of the railroads, I use these 56 railroads.

"Of these 56 railroads, 18 of them are doing about 38% of the business. They retain their credit. They came through the depression. It is true in some cases that their prices went down, but they came through the depression and retained their credit.

"Railroads such as the Atchison, Norfolk & Western, Reading, Union Pacific and others. Twelve of them doing about 27% of the business became borderline, illustrated by the New York Central, Illinois Central, Northern Pacific, Southern Pacific. Twenty-six Class I railroads entered bankruptcy. They were all subject to this tremendous rate deterioration, and they were also subject to increased efficiency in management.

"All right. Why, then, did these 18 retain their credit, 12 of them become borderline, and 26 of them go bankrupt? Because management was able to absorb the decline in the rate structure. That was the reason, of course, that saved the 18, but there must have been other reasons, and there were.

"So, examine the financial structure: How many bonds versus stocks? These railroads retained their credit and had what we call a sound ratio—about 55% bonds and 45% stocks. The borderlines had about 67% debt and the balance stocks; and the bankrupts had 74% debt and the balance stocks.

"So there, right off the bat, was one feature of these railroads which were bankrupt or borderline, which the good railroads did not have—an unbalanced and unsound financial structure.

"Next, how about their dividend policy when they were in a prosperous time? Take the period from 1924 to 1929. The good railroads, out of each dollar they took in, paid 35 cents out in fixed charges, 45 cents in dividends, and saved the rest. The borderlines had to pay out 45 cents of each dollar for fixed charges, yet they still paid 30 cents out in dividends, and retained 26 cents. The ones that are now bankrupt had to pay out 53% of every cent they took in for fixed charges, yet on top of that paid 35 cents in dividends and saved 10 cents for surplus.

"So you have two indictments of certain railroads, number one, a top-heavy bond structure; number two, a poor financial structure.

"Those things can be cured, and they are being cured.

"As a result, therefore, of this deterioration in the rate structure, despite the efficiency of management, those railroads with poor financial structures went into bankruptcy, and those with financial structures not quite so bad became borderline.

"What is happening to correct it? The fixed charges on these 18 good railroads amount to around $188,000,000 at the peak. Prior to 1942 this had gradually been reduced to around $166,000,000. The borderlines, too, had reduced from fixed charges of $177,000,000 to $157,000,000, the 12 borderlines I am referring to. So you had a slight debt reduction even prior to the large debt reduction in 1942.

"In 1942 the solvent railroads bought in the open market, including equipments, about half a billion dollars worth of their debt, and this year I think they will reduce it by another billion dollars.

"What does all this mean? It means that by the end of 1944 the solvent railroads will have reduced their fixed charges almost 30%.

"What has happened to the bankrupt carriers? These 26 bankrupt carriers had fixed charges amounting to $222,000,000. That has now been reduced, or will have been reduced at the termination of these reorganizations, to $88,000,000—a reduction of 60% on the average.

"I don't care whether these plans are changed by the various groups or not—I am speaking now of fixed charges. I don't think any plan will change the new fixed charges, either decrease them or increase them. In none of the various changes proposed has there ever been a proposal to increase fixed charges, so this reduction will stand regardless of any possible changes in plans.

"Now, the old aggregates of these 56 railroads, doing practically all the business, the old aggregate fixed charges were $587,000,000 through these various features: This will be reduced, in my opinion, by the end of 1944 by 45%, which means that even in the worst years, if we ever go back to them, if we ever go back to a $3,000,000,000 gross (which I don't think we will) it will still cover the fixed charges twice, which is as good as the utility industry did or is doing today.

"Do you realize what that means? The railroads are now bonded for about $10,000,000,000, excluding equipments; it means a reduction of close to $4,500,000,-

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The Future Of Interest Rates

With Special Reference To The Treasury's Borrowing Policy

(Continued from first page)

which few would have anticipated.

I believe that sooner or later rates of interest must rise. If the rapidly moving expansion of bank credit precipitates acute "inflationary" phenomena, rates of interest will rise radically. If to forestall this, policy is changed and the Federal Reserve authorities tighten the money markets, and the Treasury pays rates of interest on its borrowing which will really attract investors' money in adequate amount, the increase will be substantial but more moderate. The question of the amount in the increase of interest rates is primarily the question as to whether the Federal Reserve authorities and the Treasury pull up in time, or whether they pursue existing policies until their hands are forced and control of the situation becomes difficult.

There is a fundamental theoretical issue here of first importance. I shall make the discussion as non-technical as possible. The question is as to the relation between the capital market and the money market, and the extent to which the multiplication of dollars in bank deposits and money in circulation can serve as a substitute for the real savings which economists in the past have always looked upon as the primary source of capital, and as the governing influence on the supply side in the determination of the rate of interest.

The great masters in the field of the theory of interest, as Boehm-Bawerk and John Bates Clark, have concerned themselves very little with money market phenomena. Interest is a phenomenon running far beyond loan transactions. It is implicit in the whole fabric of economic values. If the rate of interest is high, a piece of land may sell for ten times its annual net product. If the rate of interest is cut in half, the same piece of land may sell for twenty times its annual net product. The rate of interest binds together present and future. It governs the allocation of capital among different productive activities. If capital is very abundant and interest rates are low, activities may be undertaken which could not be undertaken if capital were scarcer and interest rates higher. The interest rate, like all other prices, has work to do in guiding and directing the utilization of our economic resources, and in holding our economic life in equilibrium.

The explanation of the rate of interest in the history of economic thought has developed interesting rival or complementary theories which we may not do more than mention here. For John Bates Clark the rate of interest is governed by the marginal product of capital. The greater the volume of capital in relation to the supply of labor, the lower the margin will go and the lower the rate of interest will be. For Boehm-Bawerk the factor of time preference is of primary importance. Interest must be paid to induce men to forego present consumption. Unless the utilization of existing income in producing bridges and machinery creates a greater future product of hats and shoes and food than could be had by using the present income for consumption today, men will not wait. The future is far off and looks small in relation to the present.*

There is an immense literature on the theory of interest running in terms like these, with almost nothing said about the quantity of money as a factor in determining the rate of interest.

Side by side, however, with the development of the pure theory of the rate of interest, we have had the development of a very useful and very able body of money market discussion. The money market writers in London and New York, trying to forecast rates of interest, including the yield of long-term bonds, have had very little to say about the marginal productivity of capital or the time preference 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 Bank 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 discount 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 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 movement, and it would occasionally 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 £5,000,000 were large operations in pre-war London. The volume of excess money rarely grew so large in pre-war days as to attract the attention of academic economists or 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 railroad bonds dropped from 4.38% 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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*The time preference theorists regard the productivity theorists as involved in circular reasoning, since the very capital value on which the marginal product is computed as a percentage is itself in part determined by the rate of interest. I believe that this criticism of the productivity theorists is correct, but I do not discuss it here.

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"Railroad Securities In Post-War Era"

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000—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 cured 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 as the road 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 these 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%.

"Referring 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 industrials, 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, 'Yes.'

"Now I have it for railroads. I have the ton miles per man hour, the index from 1929 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 railroads in 1941 was 154, an increase of 54%; manufacturing showed 142, or an increase of 42%.

"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 they will have glider trains, but we are not going to have any ships like that, and the maximum trailers and trucks I have seen are three, whereas now, if you live on the Pennsylvania, you will see a lone locomotive taking 130 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 it 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 it 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

Japan, which I hope will be tomorrow but which I don't think will be for some time to come, if a decline like that should occur, in my opinion these things will be the cheapest securities you could possibly buy, for the reasons I have already outlined.

"But I don't think that is going to happen. I think that when more and more people realize the values, and realize that these prices are discounting bankruptcy for the railroad industry, they will no longer sell, but they will become buyers.

"I am again recommending the senior securities of the railroads being reorganized. Specifically, the St. Louis and San Francisco bonds; the Missouri Pacific 5% refunding bonds; the Northwest generals and refunds; the St. Paul generals and New Haven refunding bonds; the Rock Island generals and refundings; the Denver consolidateds and Rio Grande firsts; St. Louis South Western senior bonds; and I have probably missed a couple, but that is the general line.

"Why? They are higher than they were last year, in some cases 100%, in some cases 1,000% higher. But in each case, if you divide up—after allocating a reasonable amount of cash for working capital—if you divide up the cash positions of these ralroads by the senior bonds that I am recommending, you will find that the cash increment has increased far more than the advance in price since a year ago.

"A year ago they were discounting treatment in reorganization; they are up since then, no question about it. But if you divide the senior bonds that I recommend into the cash, you will find that the cash per bond 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. How, when, where and by what means, I don't know. I don't know what is in 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 or the great majority of it will go to the senior securities. If the plans are not changed and the cash becomes an asset of the new company, it will be used to buy bonds, both incomes and firsts, thereby helping you indirectly.

"If the progress is delayed through litigation or other means, you will probably get it as a payment on 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, that is, the well-known ones like Erie and Wabash, are selling at par, and are being bought quite regularly now by the institutions. I predict that a year from now it may be possible for income bonds of the new reorganized companies to be purchased by banks throughout the country, and if that occurs their average price will be 80, 85 and 90 rather than an average price of 50, 55 and so on, as it is now.

"When I make that statement, as I did three or four weeks ago, a banker got up and said, 'Young man, banks can't buy income bonds.' It just so happened that I had his portfolio, and I said, 'I don't know what you call that Atchison Adjustment bond. If that isn't an income bond I have never heard of one.'

"Of course it is an income bond.

"I think the new income bonds may sell on an 'and interest' basis, which will provide, I think, a lot more buyers than paying the interest every year in April.

"So far as progress is concerned, most of them are now at the point where you will get some news one way or the other. The first one that you will get some news on is St. Paul. The St. Paul plan was approved years ago by the ICC, by the District Court, and it went to the Supreme Court. The Supreme Court approved it more or less except for two refinements: One refinement is academic, because the decision of the judges does not change the plan any. The other is this topic of compensation, which is a little bit complicated, and I don't think you would gain anything by my going into the thing.

"But I do think within two or three weeks that this point will be settled by the ICC, either by approving the old plan as it now is, by saying the compensation is there or (although I don't know what the ICC will say) their apparent alternative would be to adopt a proposed compromise plan. Under either one of these plans, St. Paul generals are cheap because if the plan goes through, in my opinion the bonds are worth par, St. Paul generals, which are now selling in the low 60s. If the proposed compromise thing goes through they will be worth par, and you will get news on them almost immediately.

"Some time in September you will probably get further news on the Chicago-Northwestern. In that case the plan was approved years ago by the District Court, and subsequently by the Supreme Court, but is still in litigation. There, again, if the litigation should win, the cash available, directly or indirectly, will benefit the senior bonds. Just how, I don't know.

"On the other hand, if the plan goes through as is, the senior bond will sell higher.

"The third news, let's say, could be in Rock Island, because there the judge approved the plan with five minor exceptions, only one of which is important, and that is this compensation theory. The hearing will be September 1, and I think you will get a decision by the middle of October. There, too, whether the old or the new plan goes through, you have tremendous leverage in the Rock Island securities.

"You will get news possibly on Denver. The next Denver hearing is set for September 13, and you might get a decision before the end of the year.

"In the New Haven matter the hearings are to be held on September 8. That plan, with the exception of litigation argument, let's put it that way, concerning Old Colony, is pretty well set, and you can measure your value.

"The Frisco, according to present reports, have apparently overcome their legal hurdle by compromising the claim of the RFC.

"So, whereas this year so far we have received practically no news of any progress, all the news being Supreme Court decisions with a little complication, and so forth, from here on toward the end of the year you will get news, and regardless of what type of news it will be, in my opinion it will be favorable news.

"Although I have tried to indicate my conception of the post-war conditions, the post-war era, some people of course will not agree. So I had the boys in the office draw up some charts to show how these new securities, income bonds, first mortgage bonds and preferreds, are protected against a decline in business, if and when it does come. I use the first chart that happens to be pinned up already—the Wabash.

"(Chart) On the extreme left is the amount available for fixed charges. Both sides of the chart indicate the amount available for fixed charges. I take the ton miles of the last twelve months, which was through June. Then I say, what did that railroad have available in some period in the past, when they had 5% less ton miles? This chart indicates from 5 to 70%. Then I have shown all fixed charges and preferred dividends in the Wabash, requiring $5,700,000, and that requirement has been reduced since because they have reduced a lot of income bonds.

"The Wabash, from its historical record—and this historical record is the actual—in other words, they would have to lose 50% of their present business in order to endanger the preferred dividend. That is where these lines cross. This line is green on the chart, but it is difficult to see where you are sitting.

(Editor's Note—Unfortunately, the large charts used by Mr. McGinnis in his address were not available for reproduction.)

"Likewise, they would have to lose over 57% of their present business to endanger the interest on the income bonds.

"Remember one thing about income bonds: All of them, with but two exceptions, are cumulative if not earned up to 13.5%. Some of them, like the Denvers, are cumulative up to 18%. Study the record of any road in bankruptcy, and you can go back over the last ten years, from 1940 back, and during that period you will have all your income bond interest. True, you might have skipped some of it in 1932, 1933 or 1938, but you would have gotten it back in the first decent year.

"Now, the thing that breaks railroads, from a quick standpoint, is lack of coverage of fixed charges.

"Fixed charges on the Wabash, their business, would have to go down almost 63.5% before their fixed charges would be involved.

"In these figures here I have left out the capital fund because under present bookkeeping methods, which were not in effect when these plans were drawn, the capital fund in most cases will now be substituted, or, rather, will get a credit from depreciation of plant and structures, so that there will be in effect no capital fund. True, it will be a charge against gross, but that charge all of the railroads will have also.

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"Railroad Securities In Post-War Era"

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"(Chart) This next chart shows the Erie Railroad. Perhaps I should explain that the Wabash income bonds, that is now with the reorganization over with, the securities that are listed here—the income bonds, the first mortgage bonds and the preferreds—are the amounts exchanged under the plan.

"Likewise in the Erie. In this case, also, the fixed charges that I use are taken out of my book, and since that was published the new fixed charges on most of these have been reduced again.

"The Erie could lose 60% of its present business and still cover the preferred; they could lose 65% of their business and still cover the income bonds. I didn't carry this line out this far, but they would have to lose close to 80% of their business before involving the interest on their first mortgage bonds.

"(Chart) This is the St. Paul chart. The securities are not available in the form of new securities because of litigation. There is no trading on the when-issued securities. If my idea is right, there will be trading in a relatively short time. They can be invested in now through the medium of the St. Paul generals, and while I am speaking of that, there are only two junior bonds whose purchase I would recommend at the present time: One is the junior bond of the St. Paul, the so-called St. Paul adjustments, which sell at around 13 or 13½, and the other is the junior bond on the North Western which sells at about the same price, the convertible 4¾s.

"Getting back to this chart, the St. Paul could lose 46% of its business and still cover the new preferred, and 65% of its present business and still cover the new incomes. I did not project this line out, but it would be 75% of its present business without involving the new fixed charges.

"(Chart) This is the Missouri Pacific on the ICC plan of reorganization. As far as the over-all charges are concerned, it does not differ much from the proposed Allegheny compromise; so the figures, while they will always be a little different, draw these general conclusions:

"In this case they could lose 55% of their present business and yet cover charges including preferreds. They could lose 65% and still cover their income bonds. I did not project this line out, but over 75% could be lost and still they could cover their first mortgage bonds.

"(Chart) Understand, when I talk almost exclusively in a specific part of my talk about railroads being reorganized or those that have been reorganized, I do not mean to infer that there are

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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 arises from 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 exposition which follows, this essential rate of interest will be had in mind."

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 an increase 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 more 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 investments. 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 causes affecting actual interest rates.†

I recognized, too, contrary to the traditional view, that new bank credit could be a real source of capital without preliminary abstinence or waiting on the part of savers.‡

In 1920, in an address before the Indiana Bankers Association, the writer offered the following doctrine with respect to the nature and sources of capitals.§

Capital consists of the produced means of production. It consists of railroads and bridges, of factories and machinery, of stocks of raw materials, of flocks and herds, of orchards, of sub-soil drainage, of fences and barns, of stock of goods on the merchant's shelves. Capital grows as men consume less than they currently produce.

There are five main sources of capital. The first is consumer's thrift. 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 saver refrains 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 savings are large, rates of interest tend downward. When rates of interest are high, more saving is induced.

The second great source of capital, the importance of which we were just beginning to recognize in 1920, is business savings and, above all, corporate savings. David Friday in his **Profit, 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, particularly important in 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 sub-soil drainage. It is the product of labor rather than of saving. It involves no money intermediation. It comes when the farmer lets his flocks and herds increase instead of selling off the whole of the annual increase. One able Italian authority expressed the opinion to me in 1937 that the capital created by the Italian peasant, as he cleared his land of rocks and fertilized his land and terraced it, increased the number of his goats, etc., was practically offsetting the damage Mussolini was doing that year to the capital of the country by his fiscal deficit.

A fourth source of capital is governmental thrift, taxation for capital purposes—formerly very important in the United States. When the State taxes inheritances at high rates and uses the proceeds for current expenses, it is dissipating capital. But when the State taxes incomes and uses the proceeds in paying down public debt, it is creating new capital. The retirement of Government bonds puts into the hands of the bondholder funds which he will reinvest in industrial or railroad bonds or in other capital uses, and increases the supply of funds in the capital market in the same way that the savings of the individual consumer do. Our Federal Government had a magnificent record in this respect down to 1933. It had increased public debt down to that date only for war or for temporary emergencies, and had always promptly set about reducing the debt when the emergency was over. The one exception was the borrowing for the Panama Canal. For that we planned to borrow something like $300,000,000, but we did in fact borrow only $135,000,000, because fiscal surpluses provided the rest. All of our river and harbor improvements, all of our Federal public buildings, our Federal contribu-

†See **Value of Money**, New York, Macmillan, 1917. New edition, New York, Richard R. Smith, 1936. Page references in index under "Interest," and "Money Rates."

‡**Ibid.**, pages 484, n.; 484-89; ch. XXIV.

§Published in **The Chase**, the house organ of the Chase National Bank of the City of New York, November, 1920. See also "Bank Money and the Capital Supply," **The Chase Economic Bulletin**, November, 1926, and "Eating the Seed Corn," **The Chase Economic Bulletin**, May, 1936.

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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 the 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

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NY Savings Banks Report Gain In Govts.

Primarily as a result of the heavy increase in new savings deposits during the first six months of 1943 the Savings Banks of New York State added $368,000,000 to their holdings of Government securities. Total United States Governments held by the Savings Banks on July 1st were $2,707,000,000 or approximately 46.5% of their deposit liability on the same date said the Savings Banks Association of the State of New York on Aug. 18, its announcement adding:

"The additional purchases of Governments during this period were made possible largely as a result of the gain of over $242,000,000 in deposits and, to a lesser extent, by transfers from other types of investments including those made available from the amortization of mortgages.

"Another record gain in deposits is reported for the month of July when there was an increase of 23,649 in savings accounts and $53,608,882 in deposits. This breaks the all-time record established in June. War Bond sales were up, too, the total for July being $20,993,361.

"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 1943 is as follows:

Net gain in dollar deposits	$292,252,000
Net gain in new accounts	125,069
Total War Bonds sold	$149,363,000

"Dollar deposits and number of accounts are at an all-time high with $5,866,607,299 on deposit and 6,127,253 accounts.

"With more people saving, and with people saving more, the September War Loan Drive should break all records both in volume of bonds bought and the number of people buying them."

"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.

"This chart is the New Haven. The New Haven could lose almost 65% of its business and still cover the preferred; over 70% of its business and still cover the income bonds; and probably over 80% of its present business and still cover the first mortgage interests.

"(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 bankruptcy, probably spending more than solvent roads were spending for maintenance—they could lose 47% of their business and still cover the preferred, over 50% and still cover the income interest, and over 65% and still cover the first mortgage payments.

"(Chart) The St. Louis-San Francisco, another very drastic reorganization, could lose 45% of their business and still cover the preferred, over 53%, and still cover the income bonds, and over 63% and still cover the fixed charges.

"(Chart) This historical record does not reflect the changes, the efficient methods, and so on, that have been introduced in the railroading business in the last few years.

"The Denver could lose 35% of its present business and still cover the preferred dividend, 42% and still cover the income charges, and over 75% and still cover the first mortgage interest.

"All those I have mentioned, with the exception of the Erie and the Wabash, have to be purchased through the medium of the old securities, because the new securities are not being traded as yet.

"In this case, however, the new securities are being traded, as and if issued. I think the income securities sell around 50, and the preferred around 40 or 41.

"(Chart)" In this case the Northwestern could lose 38% of their business and still cover the preferred, over 70% of their business and still cover the income bonds, and probably 85 or 90% of their business and still cover the first mortgage bonds.

"Now I think this concludes the formal part of this meeting. I want to express my appreciation to the officers of this organization. This is a repeat visit on my part, and I understand that is unusual. 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.

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W. E. Burnet Opens Formula Plans Dept.

Among the many interesting developments in the departure of Stock Exchange member houses from the conventional is the "Formula Plans" department of 74-year-old W. E. Burnet & Co., 11 Wall St., New York City. "Formula Plans," according to H. G. Carpenter, manager of the new department, "are the concrete expression of an investment school of thought which has been developing gradually and quietly during the past 10 or 12 years. This school," says Mr. Carpenter, "believes that without assuming the hazards of forecasting, advantage may be taken of fluctuations even though their direction or extent cannot be predicted."

Mr. Carpenter is known in financial circles for his books, "A Successful Investor's Letters to His Son" (1935—Simon & Schuster) and "The Letters of an Investment Counsel to Mr. and Mrs. John Smith" (1939—Harper). His new book, "Investment Timing by Formula Plans," will be released by the publishers, Harper & Brothers, on Sept. 8.

H. H. Blizzard & Co. Admits Scott, Gurney

PHILADELPHIA, PA. — Announcement is made by Major Herbert H. Blizzard, A. C., of the investment brokerage firm of Herbert H. Blizzard & Co., 123 South Broad St., that Elizabeth K. Scott and Henry B. Gurney, Jr., who have been associated with his firm since its inception, have been admitted to general partnership.

The Future Of Interest Rates

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than they increase debt. Capital accumulated by individual thrift will increase debt if the saver buys bonds or lends on mortgage or puts his money into a savings bank. But if he uses his savings as proprietor's funds in an enterprise, or to build a home, or to reduce debt already contracted, or to buy corporate shares, he is not increasing debt. Corporate thrift increases capital without any increase in debt at all. Public thrift, taxation for capital purposes, including the paying down of public debt, means a growth of capital with a reduction in debt. Direct capitalization involves no creation of debt. On the other hand, capital created by expanding bank credit means a dollar-for-dollar increase in debt with the growth of capital. From this point of view, if from no other, it is obviously the source of capital to be used most cautiously.

The first four sources of capital are absolutely sound and wholesome. No country has ever overdone any of them. The doctrine of "over-saving" rests on a misinterpretation of phenomena growing out of excessive bank expansion. We have many times had too much bank expansion. We have never had any excess of capital created from the first four sources.¶

Credit and debt are identical. There is no creditor without a debtor, and no debtor without a creditor. Expansion of bank deposits is the creation of debt, the debts of the banks to the people or their government in exchange for the liabilities of the people or the government. The ability of the banks to repay their debts depends upon the quality and liquidity of the debts which the banks take in exchange. An immense expansion of bank credit almost inevitably means a deterioration in the quality and liquidity of the assets of the banks, namely, the debts against which they have expanded their own debts.

This is true even when bank credit is expanding against debts created for productive purposes. When bank credit is expanding as a substitute for the savings of the people in 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 the typical breeder of "inflation" 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 5 billion 800 million dollars in deposits and 7 billions in loans and investments. We pursued a very conservative financial policy in the last war. The money market was firm. Every effort was made to hold 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, 1928, without any need for it, but as the result of cheap money policies on the part of the Federal Reserve system and of in-flowing gold, we expanded commercial bank credit in the United States by 13½ 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 war and four more years in waste and disorganization 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 encourage additional saving. 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, which first generated 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 open 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 flotation of each of the four great Liberty loans. In connection with each of the first three Liberty loans the Federal Reserve banks bought some tens of millions of government securities and held them for a few days to grease the wheels while the great loan transactions were put through, adding for a few days to the reserves of the member banks to prevent an undue tension in the money market. In connection with the fourth Liberty loan of 7 billion dollars, the transactions were larger, exceeding 200 millions of dollars, but again only for a few days. The Federal Reserve banks were not continuous holders of government securities at any stage of the last war.

In 1924 and 1927 the Federal Reserve banks bought several hundreds of millions of government securities and held them for many months, generating an altogether startling increase in the volume of bank credit.

In the present period, the Federal Reserve banks have

¶"Eating the Seed Corn," Chase Economic Bulletin, May, 1936, pages 30—37.

5,801 Additional New Freight Cars Authorized

The Office of Defense Transportation has found it possible to provide for the construction of an additional 5,801 new freight cars in 1943 out of steel allocated to the railroad industry for the third quarter, it was announced on Aug. 11. The addition of the 5,801 new cars to the approximately 26,000 already authorized will mean that upwards of 32,000 new freight cars will be produced this year, ODT officials declared.

The breakdown of the 5,801 cars according to type is as follows: Box, 2,724; gondola, 262; hopper, 2,150; refrigerator, 300; flat, 365.

Many of the principal car builders and some railroad shops will participate in the construction of the new equipment, it was pointed out.

bought government securities in terms, not of tens of millions or of hundreds of millions, but of billions, replenishing the reserves of member banks and permitting them to expand credit at low rates of interest against government securities. Between February of 1942 and April of 1943 the Federal Reserve banks bought over 4 billions of government securities, the 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 new technique, but the vast scale of its use makes one ponder.

In the last war Federal Reserve rediscount rates were held below 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 3½% at the end of the year and to 4% early in 1918, still holding it, however, below market rates. At the present time the Federal Reserve rediscount rate is one-half of 1% for advances secured by government obligations maturing or callable in one year or less. Here again there is no new technique, but merely an extreme application of an old one.

The Federal Reserve authorities now have power to reduce the 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 member bank reserves by Act of Congress in 1917. There is no new technique here, though the power to go very much further in this connection is in the hands of the Federal Reserve system, and those who see no reversal of Federal Reserve policy with 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 bank credit safe.

I have seen calculations which would indicate that the capacity of bank credit to expand and to take government bonds is very great, if no question is raised as to the credit of the government and if there are no currency disorders. By pushing the capacity of the Federal Reserve banks to expand to the legal limit, which would pull down their reserves to 40% against notes and 35% against deposits, great additions can be made to the reserves of the member banks. It is to be observed, however, that this leeway is being used up rapidly. The ratio of total reserves of the Federal Reserve banks to note and deposit liabilities combined stood at 90.4% in April of 1942 and at 75.8% in April of 1943. Moreover, excess reserves, which stood at nearly 7 billions in early 1941, dropped below 1½ billions on June 23, 1943. We are using up ammunition very fast. It is technically possible to go a great deal further, however.

Further reduction of the reserve requirements of the member banks can make further expansion possible, particularly since the reduction of the reserve requirements increases the multiple of expansion against excess reserves. But it can hardly be contemplated that 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 probable withdrawals of refugee 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 must forecast the extent to which money in circulation will increase as the process goes on, which would pull down the magnitude of the expansion, and one must make assumptions 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 increase their working capital funds. At the moment such loans are going down, because the government is financing so much of the industrial expansion.

There are advocates of cheap money policy who would rest their position on the doctrine of J. M. Keynes, who rejects entirely the so-called "classical theory" of interest, who rules out time preference and compensation for waiting in the explanation of interest, and makes the whole determination 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 low figure, according to the Keynesian doctrine. I regard this doctrine as an absurd exaggeration of one factor in the theory of capital and interest which I have given above. But to those who believe in the Keynesian theory, I would point out that Keynes has himself abandoned it. In his book, **The General Theory of Employment, Interest and Money**, page 167, he states the theory, and indicates explicitly in a footnote 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 same book, he complains that the open market 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." On pages 205 and 206 he suggests that the monetary authority be prepared to deal in debts of all maturities and even in debts of varying degrees of risk. He concludes, "Perhaps a complex offer by the central bank to buy and sell at stated prices gilt edged bonds of all maturities, in place of the single bank rate for short-term bills, is the most important practical 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 can 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 objections prominent 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 the Federal Reserve system ought to tighten the money market to limit bank expansion. 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 somewhat 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 investors, the point would have merit. But when the Treasury is financing itself so largely, so far as investors are concerned, with war savings bonds which are in effect demand deposits after a short time, and when, looking at the whole picture, it is clear that the Treasury must refund a great deal of its debt in a comparatively few years, the point seems to have no validity. We had better face the realities of the future 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 away with the forty-hour week for the duration of the war, and of 50% overtime payments beginning at forty hours in 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 3½% on a fully tax free bond in the first Liberty loan, went up to 4¼% on a partially tax exempt bond in the fourth Liberty loan. The immense bank expansion which has already taken place has created vast sums of idle money 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 alert local committees, 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 have to rise progressively, but could still be kept moderate, if we have a prompt facing of financial realities. I think that the Treasury should move promptly to fund its debt into long time bonds in the hands of the people while unused bank deposits 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 590.

The CHRONICLE invites comments on the views expressed by Dr. Anderson in this article, or on any related phases of the subject under discussion. Comments should be addressed to Editor, Commercial and Financial Chronicle, 25 Spruce St., New York (8), N. Y.

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Extension Of Credit On Unlisted Securities

By OWEN V. VAN CAMP

Vice-President Enyart, Van Camp & Co., Inc., Chicago, Illinois

Prior to the enactment of the Securities Act of 1934 there does 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 so-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.

Owen V. Van Camp

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 authoritative and could be relied upon. This is no longer the case 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 tends to work 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

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Irwin R. Harris	Scherck, Richter Co.	St. Louis
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H. Russell Hastings	H. Russell Hastings	Detroit
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Harold Hawes	First National Bank	Chicago, Ill.
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Dudley Heer	Armour & Co.	Chicago, Ill.
J. G. Heimerdinger	Walter Woody & Heimerdinger	Cincinnati
Frank G. Herman	First National Bank	Chicago
Mathew J. Hickey, Jr.	Hickey & Co.	Chicago, Ill.
Larry A. Higgins	Hulburd Warren & Chandler	Chicago
Wm. G. Hobbs, Jr.	Boettcher & Co.	Chicago
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Bert H. Horning	Stifel, Nicolaus & Co., Inc.	St. Louis
T. G. Horsfield	Wm. J. Mericka & Co.	New York
J. K. Hosher	Adams & Co.	Chicago
Duke Hunter	Hunter & Co.	New York
Pete Hunter	Baum, Bernheimer Co.	Kansas City
M. J. Isaacs	Straus Securities Co.	Chicago
Jim Jacques	Dallas Rupe & Son	Dallas
J. H. Jaffe	A. A. Bennett & Co.	Chicago, Ill.
Edward D. Jones	Edward D. Jones & Co.	St. Louis
John Kalb	Adolph Lewisohn & Sons	New York
Ed. Kelly	Carl M. Loeb, Rhoades & Co.	New York
E. J. Kelly	Merrill Lynch, Pierce, Fenner & Beane	Chicago, Ill.
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W. J. Lawlor, Jr.	Hickey & Co.	Chicago
Martin Lazar	Brailsford & Co.	Chicago
A. D. Lee	Goldman, Sachs & Co.	Chicago
G. E. Lestrange	Moore Leonard & Lynch	Pittsburgh
E. L. Linder	Paine, Webber, Jackson & Curtis	Chicago
Corwil L. Liston	Prescott & Co.	Cleveland
Alden H. Little	Investment Bankers Assoc.	Chicago
L. E. Lubetkin	Seligman, Lubetkin & Co.	New York, N. Y.
Chester A. Lucas	Stein Bros. & Boyce	Louisville
Bert F. Ludington	Watling, Lerchen & Co.	Detroit
A. M. Maclaughlin	Vieth, Duncan & Wood	Davenport, Iowa
W. E. McCabe	McCabe Hanifen & Co.	Denver
George A. McDowell	Mercier, McDowell & Dolphyn	Detroit
Patrick B. McGinnis	Pflugfelder Bampton & Rust	New York
John A. McGreevy	J. S. Bache & Co.	Chicago
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Robert D. Mannix	Earl M. Scanlan & Co.	Denver
W. M. Macrury	Paine, Webber, Jackson & Curtis	Milwaukee
C. D. Mahoney	C. D. Mahoney & Co.	Minneapolis
Jerry Marquardt	William A. Fuller & Co.	Chicago
C. L. Martin	Traders National Bank	Okla. City, Okla.
Frank C. Masterson	Frank C. Masterson Co.	New York
Henry T. Mathews	Kneeland & Co.	Chicago
P. C. Matthews	Welsh, Davis & Co.	Chicago, Ill.
E. A. Mayer	Holley, Dayton & Gernon	Chicago
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Gordon Meeks	Gordon Meeks & Co.	Memphis
C. Edwin Mercier	Mercier, McDowell & Dolphyn	Detroit
Frank P. Meyer	First of Michigan Corp.	Detroit
Don W. Miller	McDonald Moore Co.	Detroit
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Cy Murphy	Mackubin Legg Co.	New York
J. H. Murphy	Cruttenden & Co.	Chicago
Roy C. Nelson	Nelson, Browning & Co.	Cincinnati, Ohio
Wm. Nelson	Bear, Stearns & Co.	Chicago, Ill.
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Lowell Niebuhr	Lowell Niebuhr & Co.	Chicago
C. Nongaarp	A. A. Bennett & Co.	Chicago, Ill.
R. C. Nongard	Stifel, Nicolaus & Co.	Chicago
L. F. North	Wisconsin Co.	Milwaukee, Wis.
James J. O'Connor	Doyle, O'Connor & Co.	Chicago
W. O. Olsen	Kneeland & Co.	Chicago
Lt. Col. Kenneth Owens		Camp Grant
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Carr Payne	Cumberland Securities Corp.	Nashville
J. Lee Peeler	First Securities Corp.	Durham
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Herbert Pettey	Equitable Sec. Corp.	Nashville
Wm. H. Pflugfelder	Pflugfelder, Bampton & Rust	New York
M. B. Pilcher, III	Gray Shillinglaw & Co.	Nashville
B. Winthrop Pizzini	B. W. Pizzini & Co.	New York
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Alex S. Porter	C. T. Williams & Co.	Baltimore
C. G. Powell	Baker, Walsh & Co.	Chicago, Ill.
Norman J. Powers	Kneeland & Co.	Chicago
Wm. B. Prugh	Prugh, Combest & Land Inc.	Kansas City
Henri P. Pulver	Goodbody & Co.	Chicago
James Quigg	Paine, Webber, Jackson & Curtis	Chicago
Edward Quinn	J. P. Blaney & Co.	Chicago, Ill.

(Continued on page 810)

Extension of Credit On Unlisted Securities

(Continued from page 808)

a much wider market for unlisted securities than that which exists at present. Therefore, all brokers, whether members of national securities exchanges or members of the National Association of Securities Dealers, Inc., are placed at a definite disadvantage when they are not permitted to extend credit on high-grade unlisted stocks and bonds when banks are permitted to extend credit on that type of security to the same individual who applies to the broker.

Changing the act to permit brokers to extend credit on unlisted securities will benefit the purchaser of such securities as well as the broker or dealer who sells them. The increase in volume, which it has been pointed out should follow a modification of the act, will afford a wider and more stable market for the client who desires to buy or sell. In some instances corporations having stocks or bond issues which are publicly held prefer not to list such issues or they are not sufficiently large to warrant listing. Such corporations should also benefit by improved facilities for a better market and wider distribution over the counter if their securities have sufficient merit to warrant their being accepted as security in margin accounts.

Very often the prospective buyer of such securities prefers to keep such a transaction confidential and does not want to go to his own bank for such credit accommodations. In other instances, a broker's client prefers to have all of his loans in one place and does not want to arrange to carry part of his secured obligations with his broker and the balance with his bank.

The foregoing are only a few of the reasons for favoring the passage of an amendment to Paragraph "C" of Section 7 of the Securities Exchange Act of 1934, whereby the resrictions in connection with the extension of credit on unlisted securities in so far as they apply to members of the National Association of Securities Dealers, Inc., and members of security exchanges might be removed or modified.

(Editor's Note — This article originally appeared in the "Financial Reporter" of October 17, 1940, and is reprinted at this time by request.)

Attendance At The Convention

(Continued from page 809)

R. G. Randall	Mason Moran & Co.	Chicago
John R. Ratcliffe	Miami Corp.	Chicago, Ill.
Glenn Ravenscroft	Ravenscroft & Co.	Cedar Rapids
E. P. Renier	Adams & Co.	Chicago
Carl H. Reusch	Fox, Reusch & Co.	Cincinnati
T. Leo Reynolds	Paul H. Davis & Co.	Chicago
Irving J. Rice	Irving J. Rice & Co.	St. Paul
Henry J. Richter	Scherck Richter Co.	St. Louis
J. D. Rocamore	Wertheim & Co.	New York
J. C. Rogers	Hickey & Co.	Chicago, Ill.
Stanley L. Roggenburg	Roggenburg & Co.	New York
John K. Roney	Wm. C. Roney & Co.	Detroit
Marvin Ruggles	Northern Trust Co.	Chicago, Ill.
James N. Russell	Gillis Russell & Co.	Cleveland
John J. Ryan	J. B. Hanauer & Co.	Newark
Joseph L. Ryons	Pacific Co. of Calif.	Los Angeles
Sam Sachnoff	First Natl. Bank of Chicago	Chicago
M. A. Saunders	M. A. Saunders & Co.	Memphis
Walter F. Saunders	Dominion Sec. Corp.	New York
Earl M. Scanlan	Earl M. Scanlan & Co.	Denver
Charles G. Scheuer	Valiquet & Co.	Chicago
P. A. Schroeder	Ernst & Co.	New York
Alexander Seidler	Julius A. Rippel, Inc.	Newark
Joseph W. Sener	Mackubin, Legg & Co.	Baltimore
W. J. Sennott, Jr.	Clement, Curtis & Co.	Chicago
Glenn Shales	Carter H. Harrison & Co.	Chicago
D. B. Sherwood	Stifel Nicolaus & Co.	Chicago
Jack C. Siegman	Edward Brockhaus & Co.	Cincinnati
R. W. Simmons	Lee Higginson Corp.	Chicago
Alfred D. Smith	Natl. Quotation Bureau Inc.	Chicago
H. B. Smith	Collins Norton & Co.	New York
E. W. Smoot		Washington, D.C.
Kermit B. Sorum	Allison-Williams Co.	Minneapolis
Wm. Spanier	A. A. Bennett & Co.	Chicago, Ill.
George Spaulding	Northern Trust Co.	Chicago, Ill.
C. Springer	Merrill Lynch, Pierce, Fenner & Beane	Chicago, Ill.
Wm. P. Springer	Carl Marks & Co.	Chicago
L. R. Staib	Geo. Eustis & Co.	Cincinnati
J. R. Stamp	Commerce Union Bank	Nashville, Tenn.
L. Montifore Stein	Bear, Stearns & Co.	Chicago, Ill.
J. F. Stephens	Barrett Herrick & Co.	Kansas City
L. J. Stirling	Hirsch Lilienthal & Co.	Chicago
Lud Strader	Scott Horner & Mason	Lynchburg
Fred Straus	Straus Sec. Corp.	Chicago
Robert Strauss	Strauss Bros.	Chicago
W. R. Stuart	Mason, Moran & Co.	Chicago
A. A. Sullivan	Equitable Securities	New York
John E. Sullivan, Jr.	F. L. Putnam & Co.	Boston, Mass.
William Sullivan	Sullivan Inv. Co.	Wichita
Willis M. Summers	Troster, Currie & Summers	New York
J. F. Tegeler	Dempsey-Tegeler & Co.	St. Louis, Mo.
Wm. F. Thompson	Greene & Co.	New York
Herman Tornga	De Young, Larson & Tornga	Grand Rapids
R. Trigger	Invest. Dealers Digest	New York
Fred Ungeher	Rogers & Tracy, Inc.	Chicago
W. M. Uphaus	Bear, Stearns & Co.	Chicago, Ill.
Owen V. Van Camp	Enyart, Van Camp & Co.	Chicago, Ill.
B. H. Van Keegan	F. C. Masterson & Co.	New York
Kenneth Van Sickle	Kenneth Van Sickle Inc.	Emporia
T. M. Wakeley	A. C. Allyn & Co.	Chicago
Donald F. Wales	Continental Casualty Co.	Chicago, Ill.
Louis E. Walker	Natl. Quotation Bureau Inc.	New York
Robert A. Walsh	Dempsey, Tegeler & Co.	St. Louis
Carroll Ward	Hoit, Rose & Troster	New York
C. W. Weathers	City Securities Corp.	Indianapolis
Arthur Webster	E. W. Price Co.	Kansas City
J. H. Weil	Weil & Arnold	New Orleans
E. H. Welch	Sincere & Co.	Chicago
Jay N. Whipple	Investment Bankers Assoc.	Chicago
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Buford G. Wilson	Jack M. Bass & Co.	Nashville
L. A. Wingader	John Nuveen & Co.	Chicago, Ill.
Lee Wolf	A. G. Becker & Co.	Chicago
F. C. Woolard	Kneeland & Co.	Chicago
Robert M. Woolfolk	Woolfolk, Huggins & Shober	New Orleans
J. F. Tegeler	Dempsey, Tegeler & Co.	St. Louis
Warren W. York	Warren W. York & Co.	Allentown
H. Zeigler		
Israel Zippin	Zippin & Company	Chicago

Utilities Need A War-Time Moratorium On "Death Sentence"

(Continued from page 782)

organization of holding companies. The first of these, United Gas Improvement, organized in 1882, controlled properties located largely in Pennsylvania and Connecticut, and had all holding companies been of this type there would have been little cause for complaint. But in the hectic 1920s the investing public was suddenly converted to the attractiveness of common stocks as long-term investments, on the theory that investment in good companies grew more or less automatically at a compounded rate, because these 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 discount the future and pay 30 to 40 times current earnings for stocks like A & P and Woolworth. A little later, utility holding company stocks had a similar play, as statisticians pointed out the wonderful growth record of the industry. Taking advantage of this public attitude, promoters like Insull, Hopson, Foshay and lesser lights exploited the public crave 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 the public. Thus, what were originally true values were pyramided to dizzy heights.

The stock market crash of 1929-1932 put some of these new companies into bankruptcy, although legitimate holding companies remained in sound condition, and considerable resentment was aroused among security holders against the promoters of these economically unjustified super-holding companies. Accordingly, the whole affair was converted into a political issue, and when the present Administration came into power one of its early achievements was adoption of the comprehensive Public Utility Holding Company Act of 1935. Although this Act, created primarily for the protection of the public as consumers and investors, contained many praiseworthy provisions to create a higher standard for utility financing and accounting, it also set out a confused program for dissolving a large part of the holding companies of the country.

While the SEC has not yet forced the actual liquidation of holding company portfolios through "barrel-head" sales of operating subsidiary equities, the recurring threats of such liquidation have undermined the confidence of investors in not only holding company but operating utility securities. According to an estimate of the writer, published in Public Utilities Fortnightly of March 4, 1943, investors had lost some $6,000,000,000 as of Dec. 31, 1942, through SEC activities under Section 11 of the Holding Company Act, which contains the "death sentence." Since that time, there has been some recovery in market values, but that loss would still be on the order of $5,000,000,000.

Even at present levels, Standard and Poor's index of 8 operating utility stocks shows their value to be lower than at any time in the years 1926-1931, while the average index value of 16 holding company stocks is currently below the lowest levels of the entire period 1923-1940, except for 1935, when the Holding Company Act was before Congress, and for 1938, when the year's low price about equalled the present level. Obviously, the forced liquidation of holding company portfolios under these market conditions offers the prospect of substantial loss to owners of holding company securities.

Four or five years' time has been wasted, moreover, by the SEC in "shadow boxing" with the holding companies over the proper interpretation of Section 11 of the Act, and the powers of the Commission thereunder. The utilities were asked, is it true, to submit voluntary plans for compliance with the Act, but since they were not advised as to how the Act was to be interpreted, all these plans, with the exception of those submitted by American Water Works and a few smaller systems, were discarded or disregarded. In some cases, the companies were left entirely in the dark for a considerable period of time as to whether the Commission approved of any part of the plan submitted, or whether its silence was to be interpreted as complete disapproval.

The SEC's timetable, furthermore, has been highly unstable in the past. Plans submitted by some holding companies have evoked no affirmative action by the Commission over long periods of time, as witness the long-pending plan of United Gas Corporation, while others have been handled with a fair degree of dispatch. And not until the threat of war loomed across the Atlantic did the SEC begin really to "press" for a "rapid compliance" with the "death sentence" provisions of the Act.

Since Pearl Harbor, however, when utilities have been straining every effort to meet war-expanded demands for service, they have begun to feel the full brunt of the SEC's authority under Section 11 of the Act. Not only are our electric utilities called upon to supply close to 70% more power than in the pre-war period, but they are forced to do the job with sharply reduced man-power. As of the end of 1942, Consolidated Edison reported that one of every six active employees on the payroll at the close of the preceding year had left their employ, most of them to enter the country's armed services or war industries. In its latest annual report, Electric Bond & Share Company stated that about 15% of system employees in the United States had joined the Nation's armed forces. And Electrical World estimates the electric light and power industry had only 245,000 employees in 1942, compared with 270,000 a year earlier, or a decrease of 9%.

Yet, careful investigation in the industry reveals that some 90% of the work required to carry out the SEC's integration program still remains ahead of registered electric and gas utilities, despite the fact that an estimated 1,725,-

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400 man-hours of work on the program has been expended by utility employees in the first 20 months following declaration of war by this country, following Pearl Harbor. Based on this figure, a conservative estimate of the total time devoted to the integration program by utility employees since the Holding Company Act was approved would be on the order of 5,000,000 man-hours, which leaves somewhere around 45,000,000 man-hours of work still to be done. In other words, the work still to be done under the "death sentence" activities of the SEC would require the fulltime efforts of 22,000 utility employees for one year, to say nothing of the time of utility executives and commission personnel. And when it is recognized that the war-depleted staffs of utilities, in addition to integration work, must devote even much more time to original cost activities instituted by the Federal Power Commission, the while rendering efficient and unimpaired service to our war industries, the magnitude of the triple burden imposed upon them begins to take shape.

This burden, moreover, is not borne by holding company personnel alone. Operating company executives and department heads also must contribute long hours to the preparation of questionnaires, exhibits, briefs and testimony. They are "on call" and must drop their regular duties to go to Philadelphia and attend SEC investigations and hearings, whenever the Commission sends for them. Only recently, at the suggestion of one of its examiners, the SEC decided to permit "canned testimony" to be submitted in lieu of long oral presentation of prepared statements. This will save valuable time, and is a step in the right direction, but the load on both the SEC and the utilities still will be tremendous.

Many dissolution plans are approaching a critical point, and many important decisions must be made in the coming year. North American Company, for example, has just submitted a voluntary plan for creating a number of subholding companies and revamping its capitalization, hearings on which are to begin Aug. 31. Likewise, hearings began on Aug. 23 on the plan of the Associated Gas & Electric's Trustees to merge the two top companies, recapitalize them and similar proposals, as well as on the Stix alternate plan. And Niagara Hudson Power Corporation has proposed a sweeping merger and recapitalization program which the SEC doubtless will take up after hearings before the New York Public Service Commission have been completed.

The SEC has in addition, just handed down a 52-page findings and opinion, to which numerous appendices are attached, rejecting United Corporation's dissolution plan, but leaving the door open for a new plan. The huge Electric Bond and Share system, with properties scattered throughout the United States and South America, has numerous issues before the Commission which have not yet been settled, since only one of its subholding companies, National Power & Light, has made real progress toward dissolution.

Furthermore, Cities Service, the hybrid oil and utility system, which would gladly get rid of its utility properties if possible, recently received its "death sentence" order and doubtless will present new proposals to the SEC, its proposal of two years ago having been ignored by the Commission. Middle West is in the midst of a comprehensive dissolution program, but important issues regarding "subordination" remain to be settled. Columbia Gas & Electric still awaits the commission's decision regarding separation of its gas and electric properties. Standard Gas & Electric and Commonwealth & Southern in recent months presented elaborate integration plans to the SEC, on which hearings are under way. And in addition, there are a host of smaller plans and problems demanding attention.

As a result, there has been considerable delay on the part of the Commission in considering proposals made for refunding operations, for the repurchase of securities and similar matters, and in some cases these delays have proved costly to the companies involved, due to subsequent advances in the security markets. Thus, on March 11, Electric Bond and Share asked the SEC for permission to spend $15,000,000 for the repurchase of its preferred stock in the open market. At that time the 6% preferred was selling around 61. But the Commission's decision on this relatively simple question, the third in a series of similar requests, was not forthcoming until July 2, by which time the stock had advanced to 69½, or 13% higher than when permission was sought.

The pressure of war time activity has forced moratoriums on many of our normal peace-time programs. Both the Commission and the companies are greatly handicapped at this time in dealing properly with the manifold problems involved in the enforcement of Section 11 of the Holding Company Act. Moreover, war time conditions make it particularly difficult for utilities to effect sweeping changes necessary to carry out the "death sentence" orders. In many cases, sales of operating subsidiaries could be made only to municipalities or other tax-free power districts or "authorities," but the burden of war financing, and the pre-occupation of voters, make even such sales difficult.

While the present improved market for utility stocks might permit a few offerings of common stock issues (the public sale of Idaho Power's common stock by Electric Power & Light is expected shortly), only a few of the great number of potential offerings could be successfully marketed under present conditions, and much better prices could doubtless be realized in the postwar period when some tax relief may be obtainable. Is it fair to penalize utility security holders by forcing these sales during the war-time period?

Regardless of the merits of Section 11, the enforcement of that section should be postponed "for the duration." In the post-war period, the utilities, the commissions, the courts and Congress, all will have more time and energy to devote to this purely domestic problem. During the war, all energies should be concentrated on the smooth functioning of the war production machinery. It should not be dissipated in endless hearings and negotiations over the transfer of efficiently operating utilities to new ownerships.

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 perhaps 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 reconstruction 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 go 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 as time goes on. Nothing can be asserted categorically, flatly and finally. But on the basis of visible facts there is every reason to believe that the securities business faces a post-war period in which the potential possibilities for constructive and profitable activity are greater than anything it ever has experienced.

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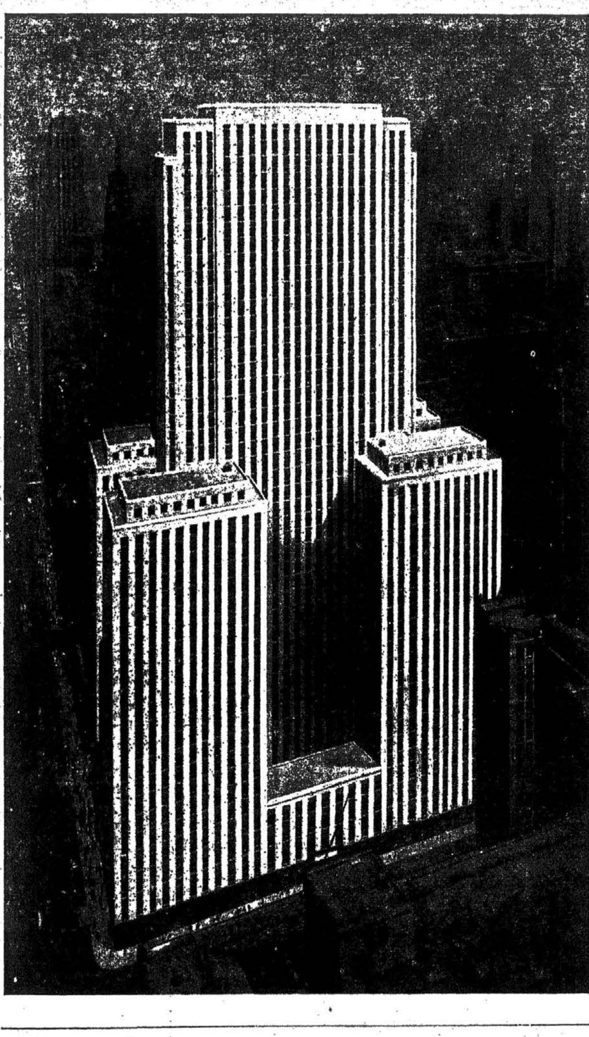

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McLEOD, YOUNG, WEIR & COMPANY, LIMITED
Metropolitan Bldg.
Elgin 0161

MILNER, ROSS & CO.
330 Bay St.
Waverley 1701

N S T A Municipal Bond Committee Reports

Russell M. Dotts, of Bioren & 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, your Chairman consulted Mr. Austin Tobin, Secretary of the Conference on States Defense and offered our services in cooperation with the Conference in event the Treasury Department would again attempt to tax Municipal Bonds; also to give any assistance, if needed, in the trial of "Shamberg vs. Commissioner of Internal Revenue" as well as the Triborough Bridge Authority case, known 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 our Committee any releases by the Conference on State Defense pertinent to the above. These were received and have been helpful in keeping us informed.

Early in June our attention was called to a bill being presented in Congress by Representative Lyle H. Boren of Oklahoma, known as the "Boren Bill" (HR 1502), which

Russell M. Dotts

bill is to prevent the SEC from having any jurisdiction over tax-exempt securities, which, in his opinion, was never the intent of Congress. Your Chairman went to New York to consult Mr. David Wood, of Thomson, Wood & Hoffman, who assumed the leadership for the various municipal organizations. On June 10 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 our 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 this 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 advise us the moment he learns when the bill (HR 1502) is to come up for hearings, so a last-minute check can be made.

There has been practically no change in the committee 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 activity.

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

AMERICAN BANK NOTE COMPANY

Preferred Dividend No. 150
Common Dividend No. 134

A quarterly dividend of 75¢ per share (1½%) on the Preferred Stock for the quarter ending September 30, 1943, and a dividend of 15¢ per share on the Common Stock have been declared. Both dividends are payable October 1, 1943, to holders of record September 13, 1943. The stock transfer books will remain open.

J. P. TREADWELL, JR.
July 28, 1943 *Secretary*

At a meeting of Directors held August 17, 1943 in London it was decided to pay on September 30th Interim Dividend of Ten Pence for each One Pound of Ordinary Stock free of tax. Coupon No. 192 must be used for Dividend.

All transfers received in order at London on or before August 31st will be in time for payment of dividend to transferees.

BRITISH-AMERICAN TOBACCO COMPANY, LIMITED
August 17, 1943

DU PONT E. I. DU PONT DE NEMOURS & COMPANY

WILMINGTON, DELAWARE: *August 16, 1943*

The Board of Directors has declared this day a dividend of $1.12½ a share on the outstanding Preferred Stock, payable October 25, 1943, to stockholders of record at the close of business on October 8, 1943; also $1.00 a share, as the third "interim" dividend for 1943, on the outstanding Common Stock, payable September 14, 1943, to stockholders of record at the close of business on August 23, 1943.

W. F. RASKOB, *Secretary*

JM Johns-Manville Corporation
DIVIDEND

The Board of Directors declared a regular quarterly dividend of $1.75 per share on the Cumulative 7% Preferred Stock payable October 1, 1943, to holders of record on September 17, 1943, and a dividend of 50c per share on the Common Stock payable September 24, 1943, to holders of record on September 10, 1943.

ROGER HACKNEY, *Treasurer*

INTERNATIONAL HARVESTER COMPANY

The Directors of International Harvester Company declared a quarterly dividend of fifty cents (50c) per share on the common stock payable October 15, 1943, to all holders of record at the close of business on September 20, 1943.

SANFORD B. WHITE, *Secretary.*

INTERNATIONAL SALT COMPANY
475 Fifth Avenue, New York, N. Y.

A dividend of FIFTY CENTS a share has been declared on the capital stock of this Company, payable October 1, 1943, to stockholders of record at the close of business on September 15, 1943. The stock transfer books of the Company will not be closed.

HERVEY J. OSBORN, Secretary.

KANSAS CITY POWER & LIGHT COMPANY
First Preferred, Series B Dividend No. 67
Kansas City, Missouri August 18, 1943

The regular quarterly dividend of $1.50 per share on the First Preferred, Series "B", Stock of the Kansas City Power & Light Company has been declared payable October 1, 1943, to stockholders of record at the close of business September 14, 1943.

All persons holding stock of the company are requested to transfer on or before September 14, 1943, such stock to the persons who are entitled to receive the dividends.

H. C. DAVIS, Assistant Secretary.

KENNECOTT COPPER CORPORATION
120 Broadway, New York City

August 20, 1943.

A cash distribution of twenty-five cents (25c) a share and a special cash distribution of fifty cents (50c) a share have today been declared by Kennecott Copper Corporation, payable on September 30, 1943, to stockholders of record at the close of business on August 30, 1943.

A. S. CHEROUNY, *Secretary.*

A. HOLLANDER & SON, INC.
COMMON DIVIDEND

HOLLANDER FURS

A dividend of 25c per share on the Common Stock has been declared, payable Sept. 15, to stockholders of record at the close of business on Sept. 4. Checks will be mailed.

Newark, N. J. Albert J. Feldman
Aug. 23 *Secretary*

DIVIDEND NOTICES

OFFICE OF NORTHERN STATES POWER COMPANY (WISCONSIN)
Chicago Illinois

The board of directors of Northern States Power Company (Wisconsin), at a meeting held on August 17, 1943, declared a dividend of one and one-quarter per cent (1¼%) per share on the Preferred Stock of the Company, payable by check September 1, 1943, to stockholders of record as of the close of business August 20, 1943, for the quarter ending August 31, 1943.

N. H. BUCKSTAFF, *Treasurer.*

SOUTHERN PACIFIC COMPANY
DIVIDEND NO. 103

A DIVIDEND of One Dollar ($1.00) per share on the Common Stock of this Company has been declared payable at the Treasurer's Office, No. 165 Broadway, New York, N. Y., on Friday, September 24, 1943, to stockholders of record at three o'clock P. M., on Tuesday, August 31, 1943. The stock transfer books will not be closed for the payment of this dividend.

J. A. SIMPSON, Treasurer.
New York, N. Y., August 19, 1943.

UNION CARBIDE AND CARBON CORPORATION

UCC

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 3, 1943.

ROBERT W. WHITE, Vice-President

E. Felix Shaskan Dies

E. Felix Shaskan, partner in Shaskan & Co., 40 Exchange Place, New York City, members 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; a sister, Mrs. Jennie Aaronson, and two brothers, George and Alexander Shaskan.

FINANCIAL NOTICE

Notice of Partial Redemption of Bonds for Sinking Fund

Southern Natural Gas Company

First Mortgage Pipe Line Sinking Fund Bonds 3¼% Series Due 1956

NOTICE IS HEREBY GIVEN to holders of the above Bonds that, pursuant to provisions of Indenture dated as of April 1, 1941 to Central Hanover Bank and Trust Company and J. T. Harrigan, as Trustees, and of said Bonds, the undersigned has elected to redeem and does hereby call for redemption on October 1, 1943, $108,000 principal amount of said Bonds, at the Sinking Fund Redemption Price in effect on that date, i.e., 102¾% of the principal amount thereof.

The Bonds so called for redemption have been drawn by lot by Central Hanover Bank and Trust Company, as Trustee, and their distinctive numbers are as follows:

Coupon Bonds Bearing the Prefix Letter M

38	1364	3671	5524	7061	8904	11229
54	1477	3778	5696	7062	8933	11230
83	1494	4004	5747	7107	8984	11462
99	1572	4061	5765	7144	9408	11591
117	1591	4100	5844	7154	9677	11672
195	1636	4421	5851	7224	9711	11694
235	1705	4511	6153	7330	9962	11737
345	1748	4554	6389	7529	9979	12285
411	2067	4590	6390	7711	10688	12472
492	2156	4654	6427	7836	10800	12507
609	2192	4754	6640	8015	10930	12551
799	2251	5018	6753	8016	10931	12671
860	2360	5033	6927	8097	10986	12694
1148	2515	5122	6962	8142	10990	
1296	3271	5434	7039	8338	11078	

Fully Registered Bonds Bearing the Prefix Letter R

127 184 613 614 615

On October 1, 1943 there will become and be due and payable on each Bond so to be redeemed, at the principal office of Central Hanover Bank and Trust Company, 70 Broadway, Borough of Manhattan, City of New York, 102¾% of the principal amount thereof, with interest accrued upon such principal amount to said date. Payment will be made upon presentation and surrender of such Bonds accompanied, in the case of coupon bonds, by all appurtenant interest coupons maturing on or after that date. From and after October 1, 1943 interest on said Bonds so called for redemption will cease to accrue and interest coupons maturing after that date will be void.

Fully Registered Bonds and Coupon Bonds registered as to principal should be accompanied by duly executed assignments or transfer powers in blank.

Southern Natural Gas Company,
By H. GORDON CALDER, *Treasurer.*

Dated: August 26, 1943.

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

Lt. Col. Kenneth H. Owens, former Detroit broker, has received many rapid advancements during his career in the Army, both in World War I and the present conflict.

He began his military career in 1917 when he organized a college unit while a medical student at the University of Chicago, and entered the medical enlisted corps. He rose to the command of captain in only a year and nine days. After his discharge from the Army, he abandoned his plans to become a doctor and entered the investment business in Detroit in which he was active until his recall to duty in the Army in January, 1941. He was assigned to the recruit reception center at Camp Grant in command of a medical detachment. Appointed Adjutant in May, 1941, he was transferred to the medical replacement training center in August, 1941, as Assistant Adjutant General of the assignment center. He was appointed personnel officer in charge of military and civilian personnel at the camp on November 1, 1941. On April 15, 1942, he was promoted to Major and in April, 1943, he was advanced to his present rank.

R. P. Compton Joins Republic Aviation

Randolph P. Compton has resigned as Vice-President of Union Securities Corp. to engage in war industrial work. After taking a retraining course at the Harvard School of Business Administration, Mr. Compton has just become associated with the Republic Aviation Corp. at Farmingdale, L. I. Prior to joining Union Securities Corp. in July, 1941, Mr. Compton had been in charge of municipal bond activities at Lazard Freres & Co. since 1934. He was formerly Vice-President of the William R. Compton Co., specialists in municipal bonds.

Denv. & Rio Grande Offers Interesting Situation

Denver & Rio Grande Western 4s of 1936 offer an interesting situation, according to a circular just issued by Pflugfelder, Bampton & Rust, 61 Broadway, New York City, members of the New York Stock Exchange. Copies of this circular may be obtained upon request from Pflugfelder, Bampton & Rust.

FINANCIAL NOTICE

NOTICE OF REDEMPTION

To the Holders of THE CHESAPEAKE AND OHIO RAILWAY COMPANY

Refunding and Improvement Mortgage 0.85% Bonds, Series G-3 due February 1, 1944

NOTICE IS HEREBY GIVEN that The Chesapeake and Ohio Railway Company has elected to exercise its reserved right to redeem and pay off on **September 20, 1943,** all of the above-mentioned bonds then outstanding at 100.20% of their principal amount, together with accrued interest on such principal amount to said date, in accordance with the terms of Article Five of the Refunding and Improvement Mortgage, dated April 1, 1928, from The Chesapeake and Ohio Railway Company to Guaranty Trust Company of New York and Herbert Fitzpatrick, Trustees, and Part IV of the Seventh Supplement thereto, dated May 1, 1936, and Part II of the Tenth Supplement thereto, dated February 1, 1941, and that all of said bonds are called for redemption on said date. There will therefore become due and payable on September 20, 1943, at the office of J. P. Morgan & Co., Incorporated, 23 Wall Street, New York 8, N. Y., Paying Agent, the principal amount of said bonds, together with a premium of 0.20% of such principal amount, and accrued interest on such principal amount to said date. From and after said date interest on said bonds will cease to accrue, and all coupons maturing February 1, 1944, shall be null and void.

The bonds should be presented for redemption as aforesaid with the coupons payable February 1, 1944, attached. In the case of bonds registered as to principal, where payment to anyone other than the registered owner is desired, the bonds must be accompanied by proper instruments of assignment and transfer.

THE CHESAPEAKE AND OHIO RAILWAY COMPANY

By H. F. LOHMEYER, Secretary,

Cleveland, Ohio, *dated* August 20, 1943.

Public Utility Securities

United Corporation Ordered to Recapitalize

United Corporation, organized primarily as an investment company by the Morgan-Drexel interests in 1929, is construed to be a holding company under the Utility Act, which states that ownership of 10% or more of voting stock of any utility company constitutes "control." Thus, United Corp. became the holding company for Columbia Gas, Niagara Hudson, Public Service and United Gas Improvement, although in no case did it hold much more than one-quarter of the voting stock. While the company does not publish a "consolidated" balance sheet, the "system" size is estimated at about $3,000,000,000 or approximately equal to that of the Electric Bond & Share system. The latter company, however, has actively managed its subsidiary holding companies (through Ebasco) with the exception of American Gas & Electric.

United Corp. has made several moves to conform to the Utility Act, but thus far the SEC has remained critical of these efforts. In November, 1941, a plan was filed with the commission to expend $2,500,000 for purchase of its preference stock in the open market, and a hearing was held in December, but no decision had been rendered in the intervening year and nine months. In 1939 the company undertook to broaden its portfolio, probably with the idea of attaining investment trust status, and $4,478,651 (out of $8,000,000 authorized by the SEC) was expended in the purchase of 25 "blue ribbon" industrial stocks. This section of the portfolio remained practically unchanged up to the date of the company's last report. The company has not wished to dispose of additional utility holdings at prevailing prices because this would result in heavy book losses.

The company accordingly proposed, pending completion of the program for diversifying its portfolio, that it would refrain from voting as a stockholder in the utility companies which it controlled. However, this plan did not appeal to the commission, which instituted an inquiry into the corporate structure, distribution of voting power, advisability of continued existence, etc. Hearings were held in October, 1942, but no formal decision was announced. More recently, under its new President, William Hickey, the company proposed a policy of reducing stock holdings in its four "subsidiaries" to less than 10%. Thus it would relinquish control, and escape regulation by the SEC under the Utility Act (though remaining under its jurisdiction as an investment trust). It also agreed to consult the commission before voting its remaining stock holdings of 10% or less in these companies.

The commission recently rejected this plan and ordered the company to recapitalize. The SEC stated: "United's plan offers nothing which will assure the expeditious disposition of its holdings in the subsidiaries. The plan merely recites an intention to carry out the reduction program. . . . The mere reduction to less than 10% will not necessarily transform United into an investment company."

The commission presumably has the legal right to order a recapitalization prior to disposition of a controlling interest in the four subsidiaries. But its argument that "United, even with less than 10% of voting stock, would easily remain by far the largest single stockholder in each subsidiary," loses weight in view of United's willingness to give up any remaining voting rights. The contention that United has attached too many reservations to this offer seems beside the point. The Utility Act specifically fixes 10% as the dividing line between control and non-control. While it is true that some additional powers to determine control are given to the Commission, the language of the Act seems to indicate that these are intended only for exceptional cases.

Assuming that United Corp. proceeds with a recapitalization plan, as the next step to conform to SEC ideas, the question arises as to the assignment of new common stock to the preferred and common stockholders. There are outstanding 2,488,712 shares of $3 preference stock and 14,529,491 shares of common. Dividend payments on the preferred have been irregular since 1937 though present arrears amount to only $2 ($1 was paid in February, $3 last year). Share earnings, which amounted to $4.30 in 1937, dropped to $1.43 last year and in the first half of 1943 to 70c. The decline has been largely due to the lower dividends paid by Public Service of New Jersey, following the heavy inroads made by Federal taxes into that company's earnings (earnings were on a "parent company" basis and on a consolidated "system"

(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 sadly behind the general market. It is of interest to compare the market record of high grade bank stocks, as represented by Standard and Poor's weekly index of 19 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 41.22, while at the recent July 1943 high, they were 145.82, or 253.8% higher. Standard and Poor's bank stock index was 60.3 at the 1932 low, and 95.5 at the July 1943 high, or only 58.4% higher. This is a truly astounding difference, for the bank stock appreciation is only 23% of the appreciation of the Dow Jones industrial average.

Measuring again from the 1932 low, but this time to the high of the market in the first quarter of 1937, we find that the D. J. industrials moved from 41.22 to 194.40, or 371.6%, while bank stocks moved from 60.3 to 154.5, or 156.2%. In this case bank stock appreciation was 42.2% of industrial stock appreciation. Obviously bank stocks did comparatively better between 1932 and 1937 in relation to industrial stocks, than they have since 1937.

Currently, both bank stocks and industrials are moderately below their highs of July 1943, as follows:

	Bank Stocks	D. J. Industrials
July 1943 High	95.5	145.82
Aug. 18, 1943	94.6	138.45

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

	Aug. 18, 1943	1937 High	% Apprec. to Reach 1937 High
Standard & Poor's Bank Stock Index	94.6	154.5	63.3%
Dow Jones Industrial Average	138.45	194.40	40.4%

It now seems worthwhile to examine the performance of the individual bank stocks which comprise the Standard and Poor's index. The following tabulation, therefore, shows the market appreciation of each stock from December 31, 1942 to August 18, 1943, and also the potential appreciation from this latter date necessary for each stock to reach its 1937 high. The current yield of each stock is also shown.

	Asked Price 12/31/42	Asked Price 8/18/43	Appreciation %	Potential Appreciation: 8/18/43 to 1937 H. %	Current Yield %
Bank of Manhattan	17	21¼	25.0	95.3	4.2
Bank of New York	289	392	35.6	40.3	3.6
Bankers Trust	38	50¾	33.6	70.4	2.8
Brooklyn Trust	63¾	91	42.7	73.6	4.4
Central Hanover	75¾	99	30.7	55.1	4.0
Chase	29½	38	28.8	72.4	3.7
Chemical	39¾	47¾	20.1	80.1	3.8
Commercial National	169	217	28.4	12.0	3.7
Cont. B. & T.	13½	18¼	35.2	24.7	4.4
Corn Exchange	37¾	47	24.5	64.4	5.1
Empire	46½	80	72.0	133.5	3.8
First National	1145	1495	30.6	81.3	5.4
Guaranty	238	306	28.6	28.8	3.9
Irving	11¾	14¼	21.3	45.6	4.2
Manufacturers	37	47	27.0	51.1	4.3
National City	30¼	35¾	18.2	72.0	2.8
New York Trust	74½	91½	22.8	79.2	3.8
Public National	28¾	35	21.7	74.3	4.3
U. S. Trust	1050	1240	18.1	73.4	5.5
Average			29.7	64.6	4.1

It will be noted that from Dec. 31, 1942 to Aug. 18, 1943 the average appreciation of the 19 bank stocks has been 29.7%, and that in order again to reach the 1937 highs their average appreciation must be 64.6%. There are, however, marked differences between the individual stocks. Empire Trust, for example, shows an appreciation of 72.0% during the current year, while United States Trust shows only 18.1%. To reach the 1937 high, Empire Trust shows a potential appreciation of 133.5%, while Commercial National shows only 12%. Between these two extremes lies a great assortment of percentages, comparatively few of which are very close to the average.

In the case of Empire Trust, the stock suffered an unusually severe decline from a high of 37⅜ in 1937 to 8½ in 1940, at which time the par value was changed from $10.00 to $50.00 per share, since when the new stock has climbed to 80. The 1937 high of 37⅜ was on a par of $10.00, and is mathematically equivalent to 186⅞ on a par of $50.00, thus, the present stock will have to appreciate approximately 133.5% to reach its equivalent 1937 high.

As has been pointed out in this column before, the banks are enjoying a period of great activity occasioned by the Nation's stupendous war effort; furthermore, this activity is being translated into the most favorable earning situation which they have experienced in many years. Deposits, earning assets, book values, and all the other tokens of bank prosperity, have been growing and are continuing to grow. The post-war era, too, seems to hold great promise for commercial banking, and on a sounder basis than was possible under a system which, in the 1929 era, tolerated the speculative activities of "security affiliates."

All things considered, it seems to this writer that a diversified list of high grade New York City bank stocks at current levels has much to offer the conservative and realistic investor. The yield is attractive, fairly substantial market appreciation seems probable, and some dividend increases, after the war, would be in order.

Real Estate Securities

Hotel Lexington Cash Sinking Fund Of $193,988.71 For Six Months Ended June 30, 1943 Is $57,716.38 More Than Amount Available In Previous Six Months

A Total Sinking Fund Of $330,261.04 For 12 Months Period Equal To Nearly 10% Of Funded Debt Presently Outstanding

The 28-story Hotel Lexington containing approximately 750 rooms and located on the southeast corner of Lexington Avenue and 48th Street, New York City, was reorganized in 1935. Securities issued in the reorganization consisted of a unit comprising an $800 Mortgage Income Bond, a $200 Income Debenture Note and 15 shares of Capital Stock for each old $1,000 bond. The stock so issued represents about 67% of the equity in the property. Under the terms of the indentures the sinking funds purchase the bonds and notes, the stock being retained by those who tender bonds and notes to the sinking funds.

The reorganization record of the property is impressive in spite of the fact that it was handicapped at the start with reorganization expenses of about $144,000 and cost of alterations and improvements of about $165,000, of which $127,000 was the cost of the "Revere Room," which has been a good source of income since completed. The period up to June, 1942, produced income sufficient, however, to defray the above costs and to pay in full all 4% cumulative interest on the funded debt of $3,900,000 and to leave a balance of about $16,000 available as a sinking fund, sufficient to reduce funded debt to $3,867,500.

Starting, however, in July, 1942, with a clean slate and a demand for hotel accommodations, the property has reduced funded debt to $3,445,800 as of Aug. 31, 1943, with approximately $62,000 still unexpended in the sinking funds.

An interesting part of this reorganization is the 67% of the equity stock issued in the unit. This stock holds promise of dividends and increased value, due to the fact that when outstanding mortgage bonds are reduced to $2,400,000 (originally $3,120,000 and now reduced to $2,758,160) the amount of the sinking fund then applicable is limited to 1% of the amount outstanding at the end of each six-month period, or $20,000, whichever shall be greater. When this point has been reached it is evident that the top sinking fund could be no more than $24,000 for a six-month period. At the present earning rate, reduction to $2,400,000 is not too far away. At that time dividends may be declared on the capital stock.

Some Thoughts On Postwar Rail Prospects

(Continued from page 783)

mand is satisfied which, with production allocated at the 1929 rate, **would indicate theoretically five years of 4,587,000 cars per year.**

Examination of the past record of freight revenues **in terms of** U. S. passenger car production, discloses a figure of $1,000 per car results which, applied to possible post-war output, plus passenger revenues at only 40% of the 1942 rate (thereby allowing for the return of the passenger car, bus and airplane), plus $100,000,000 of mail revenues (leaving the express business entirely to the air transport industry) would indicate gross railroad revenues of $5,000,000,000 (such revenues would approximate midway between the 1941-1940 level).

Application to a potential $5,000,000,000 annual gross revenue base of a 70% operating ratio (vs. 68.5% for 1941 and 71.9% for 1940) plus other adjustments, would leave an estimated balance available for fixed charges and Federal taxes of around $980,000,000, contrasted with estimated New Fixed Charge requirements of $481,000,000 annually (after giving effect to known ICC or compromise reorganization plans, as well as allowing for possible 1943 debt retirement of $750,000,000 and 1944 possible debt reduction of $400,000,000).

Net current assets at the close of 1943 may reach $1,700,000,000 vs. $1,200,000,000 at the close of 1942, $816,000,000 at the close of 1941, $598,000,000 at the close of 1940, $178,000,000 at the close of 1938, and **$407,000,000 at the close of 1929.**

Post-war rail earnings effects will be widely divergent, with the best results probably favoring carriers serving the Texas-Southwest and the Pacific Coast.

Thereupon, the writer proceeds to list in the Bulletin the particular bond issues, defaulted and regular-interest-bearing, which appear to have the best prospects in view of the general outlook. Copies of this interesting bulletin may be had upon request from McLaughlin, Baird & Reuss.

Guffey Coal Act Expires

The Guffey Coal Act, which was enacted in 1937 to stabilize the soft-coal industry through establishment of minimum prices, expired on Aug. 23, thus ending Government regulation of the industry.

A request for extension of the law until two years after the war was refused by Congress before it recessed for the summer. Previously, Congress had extended the law for 90 days from its expiration in the spring.

The act was allowed to die despite efforts by President Roosevelt and Secretary of the Interior Ickes, the Solid Fuels Administrator, to have it continued; this was reported in our issue of July 8, page 104.

It is believed attempts to renew the act will be made when Congress reconvenes.

Canadian Securities

By BRUCE WILLIAMS

In view of the wealth of discussion that has been aroused by the numerous currency plans recently announced, it might be well to consider them from the point of view of Canada. The revised plan just made public by Mr. Morgenthau appears to lean more towards the Canadian version than the original proposal. Whether we take the British plan which stresses foreign trade as the predominant basis of participation or the Morgenthau-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 80% 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 North West is more fully 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 fearful that the world's economy is going to be dictated by hastily conceived arbitrary regulations. Furthermore, the rules that determine our future business dealings might be interpreted and enforced by what might very well prove to be another abortive "League of Nations."

Before embarking hurriedly on any ambitious global scheme, it would surely be possible for us, together with the British Commonwealth, and, if willing, Russia, to keep the main currencies of the world on an even keel in the immediate post-war period, 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 full gold parity. Unquestionably, when one considers the present vested interests of this country, the British Commonwealth and Russia, gold will continue as 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 direct and guaranteed issues were steady but inactive. The Eastern provinces, however, continued in demand and the longest term Ontarios established a new high level and now yield only slightly above 3%. A further large block of British Columbias traded but the market remains firm with the long term issues on a 3.40% basis. Other Western provincial issues, however, tended to weaken. Saskatchewan 4½s of 1960 were offered at 91½ after being 93 bid. Manitoba 4½s of 1956 were 106½ offered after 107 bid. Alberta 5s declined from the recent high of 83 and were offered at 78.

Dominion internal issues continued in demand and are still coming down from Canada on the basis of the money rate. Corporates, on the other hand, remained under the influence of the recent drop in the stock market here and were still quoted at 15/16% discount. Bearing in mind that the Canadian stock market has been relatively little affected and the continuing firmness of the Canadian dollar, this section of the market appears decidedly attractive.

Reverting to the market for external bonds in general, it seems that we must give increasing attention to the following factors. The whole market has had a long sustained advance, and, as anticipated in these columns, many obvious adjustments have now been made.

Ordinarily, some reaction would be a normal consequence, but in the case of the higher grade bonds over a long period there has always been a ready demand here and Canadian holders have sold readily on fear of losing the 10% U. S. dollar premium, to such an extent that the Canadian supply is now severely curtailed. Scarcity value, therefore, can delay the normal process. In the case of the lower grade bonds, until the recent general market advance, it had not been possible for Canadian holders to find buyers here to any considerable extent. Therefore, the market now is experiencing the effect of the Canadian supply which there is little reason to doubt will continue to operate if prices continue to be attractive.

Attractive Situations

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

Gov. Dewey Says Labor Rights Must Be Restor'd

(Continued from page 783)

owners when the owners were without fault.

"In time of total war such an abridgement of our rights is probably inescapable. But it is a condition which can only be justified by the sacrifices of war. We are fighting to make sure that such totalitarian conditions cannot exist in time of peace.

"For whether we recognize it or not, the peacetime effect of government control over the terms and conditions of labor would inevitably be to regulate out of existence the whole purpose of labor unions.

"It is a fundamental truth that there is no place for genuine collective bargaining in a regimented economy. We have seen that strikingly demonstrated in the Fascist economies against which our whole nation is today fighting. Collective bargaining is a right of free labor which can only be exercised by free labor. And there can be no free labor except in an enterprise economy conducted by free men.

"So that we shall truly regain and keep the vital freedoms for which we fight today, I invite you to join with all your vigor in the struggle to restore them at the end of the war. We can be neither free nor strong in a peacetime regimented economy. We can be both free and strong if we recover for labor and enterprise the dignity and unfettered strength which only free men can enjoy.

"We are all fighting for the same thing, total victory. Workers and employers are equally interested in that goal. They are all gladly making every possible sacrifice to win the war and to win the peace after the war. An indispensable part of that peace will be continued progress in all our relations—the relations between labor and management, between both and government. The teamwork that we have set up in New York State must not be a temporary arrangement. It must be something that will last—that will enable us to live together and to work together, more keenly alive than ever to the ultimate truth that what benefits one group will benefit all.

"America never turns back. Whatever our calling, we Americans look forward to the sharing of an ever greater future."

The Governor in commending labor in this State for having kept its "no-strike pledge" said:

"We can all take particularly great pride in the fact that there have been no industrial strikes of any moment in the State of New York. There have not even been any industrial controversies here which are worthy of the name. The New York State Federation of Labor can point with similar pride to its record of having authorized no strikes in the industrial shops where it represents the worker. Labor in this state has kept its 'no-strike pledge.'"

Nat'l City Bank of Cleve. Situation of Interest

The current situation in National City Bank of Cleveland offers attractive possibilities according to a circular being distributed by Otis & Co., Terminal Tower, Cleveland, Ohio. Copies of the interesting circular may be had from the firm upon request.

Post War Rail Prospects

McLaughlin, Baird & Reuss, 1 Wall Street, New York City, members of the New York Stock Exchange have just issued an interesting circular entitled "Railroads—Some Thoughts on Post-War Prospects." Copies of this circular may be had from the firm upon request.

Investment Trusts

That Bogey Man Has Teeth

We have a final batch of June 30 reports which, by all precedent, should be duly summarized 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 list the companies together with their reported net assets as of June 30, 1943. **Affiliated Fund,** $24,018,549 before deducting $10,000,000 of debentures; **American Business Shares,** $4,715,646; **Boston Fund** (July 31), $10,917,565; **Commonwealth Investment Company,** $1,690,547; **Group Securities,** $15,533,676; **Keystone Custodian Fund, Series "B1,"** $3,012,278; **Keystone Custodian Fund, Series "K2,"** $1,161,395; **New England Fund,** $3,161,219; **North American Investment Corp.,** $4,360,494 before deducting $1,465,000 of debentures; **Quarterly Income Shares,** $18,930,919; **Union Trusteed Funds,** $2,491,894; **Wellington Fund,** $9,743,684.

And now to the piece de resistence. It's about that old bogey man—inflation. A growing number of people are beginning to suspect that maybe he has teeth. A careful reading of "The Economic Future" (issue of July 31) should remove any doubt. This service, published by Tradeways, Inc., discusses the threat under the heading, "Post-War Inflation —What To Prepare For." Hugh W. Long & Co. is distributing the material to affiliated dealers.

The service (after searching analysis) arrives at the following conclusions:

1. Wholesale prices after the war, on the average will probably rise at least 100% and may go a great deal higher.

2. At the war's end inflation will start quickly and will rise to a climax within two or three years.

Significant excerpts from the article follow:

"Since the Roosevelt administration devalued gold ten years ago and withdrew it from circulation, all money in this country consists of pieces of paper or of ledger accounts. Practically, though not in form, it is all 'fiat money.'

"This plain fact, though known to everyone, has implications not always recognized. In practice, it removes all restrictions on monetary expansion except those imposed by law or set up as policies by government—operating in this country through the Federal Reserve Banks. **Laws and policies 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 they are too cautious to step out and take their cues. In that case, the show does not go on. This is a reasonably accurate summary of monetary history from 1933 to 1940.

"Nearly all economists, both new deal and conservative, fully expected an inflationary upsurge of prices. The reason it did not come was that most businessmen, disturbed by government policies, did not extend their operations. Year after year bank loans remained almost stationary.

"What is more important, the velocity, or turnover rate, of demand deposits declined steadily until 1942. Thus, although deposits more than doubled, the increase was largely 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 150%.

"During and after World War I through 1920 wholesale price advances were: in Great Britain 223%; in the USA, 145%; in France, 500%; in Germany, 1600%. Thereafter French prices climbed another 250 and German prices soared to the sky.

"So par in the present war, extending into the Spring months of 1943, advances in wholesale prices based on 1939 have been:

United Nations	
USA	35%
Canada	32%
Britain	58%
Axis Nations	
Germany	9%
*Japan	29%

*Up to Dec. 1942

(Continued on page 827)

Savings And Loan Institutions Are Penetrating To All Nations

By EDWARD C. BALTZ

Vice President for United States of America, International Union of Building Societies and Savings and Loan Associations

A recent request for material on savings and loan associations to be sent by the United States Savings and Loan League to Asuncion, Paraguay, in the keeping of one who goes as a good neighbor representative of the State Department, emphasizes the international good name and fame of this type of institution. Actually institutions of this type have already penetrated into 17 countries in every Grand Division of the world. It was estimated at the last International Congress of Building Societies and Savings and Loan Associations, held in Zurich, Switzerland, in 1938, that the total resources of all savings and loan institutions in the world were $10,000,000,000.


Edward C. Baltz

The United States has the largest slice of those assets, $6,250,000,000, and the United Kingdom, where institutions of this type first took their rise 162 years ago, runs second. The business is relatively new in the other countries, and it was functioning more methodically and less turbulently in the British Commonwealth of Nations than in the Continental European countries even before the war. On the Continent they had not by 1938 reached a place of prominence or of much influence in the financial world and the past four years of actual war have not bettered their position. The dream remains, however, of making the system work among them, and the men who were engaged in it in Switzerland, Austria and some of the Balkan countries have kept right on with their interest and their hope for the future.

Thus savings and loan institutions as a world force belong to the future. Although cooperative financial institutions, they incorporate the genius of paying first heed to good management, to coming out in the black instead of the red for each operational period. They have the key to permanence as financial institutions by their heed to reserves, to continually building up the membership of the institution to replace a generation going out of date, and by a determination to adapt their methods to new ways of doing things. They should hold much promise for the reconstruction of Europe, for the rebuilding of Europe's homes after the war, if the sound system as we know it in the English-speaking nations can be pushed and expanded. They hold sound promise for the fostering of individual self-reliance by providing an easily understandable security, with good earnings and a safety record which deserves some emphasis.

The British Building Societies are well known in America because of the prominence which was given in the middle '30's to Great Britain's home building boom, and because these societies were the backbone of the financing for that great achievement. It is not any too well known that they are the counterpart of our savings and loan institutions in this country. They are truly the mother system of thrift and home financing institutions from which our own sprang directly. Because some of the British building societies have attained greater size than our largest, and because it is possible for a single institution of this kind to operate all over a country of such relatively small dimensions as England or Scotland, it should not perhaps be surprising that the differences between their activities and those of the savings and loan associations in this country should obscure to the eyes of the general financial public their similarities and their common basis of procedure. The kinship, the practical parent and child relationship between the two institutions, is there however and should be more thoroughly understood here in financial circles in order that the possibilities of savings and loan institutions may be more adequately judged.

A director of the largest institution of this type in London, the Abbey Road Building Society (of which Sir Josiah Stamp, the eminent British industrialist and economist was President at the time of his death in an air raid) was recently in this country on a mission for his government. He said of the Building Societies and their safety: "An investment in a building society has proved to be one of the best securities. It has stood up to the ravages of war as well as Government securities." There should be a great deal of promise in that kind of investment to the countries which are struggling back to life and security after the war.

The savings and loan investment in the United States has a record of safety which is beyond all realization by those who are unfamiliar with the business. Year after year, the records of the Secretary-Treasurer of the United States Savings and Loan League show the safety record of the savings and loan system in this country. The lowest that record ever got was in 1933 when it was 99.37% of total assets. In the other depression years the safety record was between 99.73% and 99.85%, of the total assets of the system. In 1941, it was 99.988%.

So if a sound system of thrift and home financing institutions can become much more nearly universal after the war, if its beginnings on the continent and in South American countries and in the younger nations of the British Commonwealth can be expanded, there will exist a safe place for the individual to build his own economic security. It will act as a reinforcement of the self-reliance of the individual which may be one of the problems in rebuilding a world which has known steadily less and less of such traits from almost as far back as the end of the last war.

Advances To Illinois And Wisconsin Savings Assns. At New Peak

The Federal Home Loan Bank of Chicago advanced more money in July to Illinois and Wisconsin Savings, Building and Loan Associations than in any previous July since it began operations, $2,919,610, A. R. Gardner, President, reported on Aug. 16 to the Federal Home Loan Bank Administration in Washington. Loan volume ranked third for any month so far in 1943, and served largely to offset repayments on loans which reached $3,167,912 last month, it is stated. It is also indicated that the bank closed the month with 156 member associations borrowing, a gain of three over the close of the previous month, although total loans outstanding went down. Aproximately a third of the member institutions are using the Bank's reserve credit facilities today, it was pointed out.

"Up to now the major portion of the loan volume advanced by the Bank was to supplement home lending funds in the Savings, Building and Loan Associations' own communities," said President Gardner. "With the advent of the war economy the demand for Bank advances to serve this purpose has been diminishing. The Federal Home Loan Banks, however, it must be recalled, were designed from the start to serve the varying credit needs of the local home financing institutions."

Tomorrow's Markets Walter Whyte Says—

(Continued from page 783)

day. Stock after stock sold down and in doing so broke previous low points. The only balm in this Gilead was the absence of any important volume. But to the average holder of stocks such an absence is poor comfort. A loss is no smaller because it is accomplished on small volume.

* * *

Yet underneath this sinking decline there were evidences of better than just good support. At no time, however, did any of this buying showing any aggressiveness. When stocks were offered the stocks were taken; but always at concessions. At no time were there any signs of active bidding. Some of the buyers were investment trusts but by far the largest buyers (if you can call them that in such markets) were professional traders. At this point it might be emphasized that professional traders have no interest in long term rigamarole. They buy them because they expect to sell out at a profit in the immediate future. Long term possibilities while of academic importance don't interest them.

* * *

As this is being written the averages are down to about the lows of July. If these lows are to hold in the majority of stocks a rally must occur from close to present levels. If most of the stocks don't hold their lows the professional traders will almost certainly step out.

* * *

In today's (Tuesday's) market the lows of July are being recognized in a sort of left handed manner. They have stopped going down and volume has dried up even more than it has of late. This may or may not be a good sign. Yet if the rally I expect is to materialize it must materialize without the market going down more than two points on the downside. Within these two points the stocks recommended for purchase will come in.

* * *

For the record these are as follows: Borg-Warner (inadvertently I said this one got down to 32. It did not; so the buy point remains the same) buy at 32 with a stop at 31. Canada Dry, buy at 20½, stop at 19. Distiller-Seagram, buy at 27½, stop at 26. Shell Union Oil was bought at 26 when it sold down to 25½. Stop it at 25. Sinclair was bought at 11 when it went to 10⅞. Stop it at 9¾. Buy United Airlines at 26½, stop at 25½. Buy White Motors at 19, stop at 17 and Yellow Truck at 17 with a stop at 15.

* * *

More next Thursday.

—Walter Whyte

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

Savings & Loan Assns. Return $100 Million To Government

Since January 1, 1943, Savings and Loan Associations have returned nearly $100,000,000 to the Government, retiring Federal investments in their capital made during post-depression years. Those thrift and home-financing institutions have repurchased $98,780,000 of Government investments in their shares already this year, although only $10,300,000 was due, James Twohy, Governor of the Federal Home Loan Bank System, announced. By Aug. 15, more than $202,000,000 had been retired out of a cumulative total of $273,156,710 so invested by Federal agencies. Mr. Twohy added:

"These government investments, made largely in the 1935-1937 period, were intended to increase the supply of funds available for home financing throughout the nation. They serve this public purpose effectively, besides paying to the Government approximately 52 million dollars in dividends on the investments.

Now, they are being re-paid to the Government at a rate far in advance of the agreed schedule, out of the steady increase in savings invested by the public in these institutions. This retirement program indicates the healthy growth of these institutions and is helpful to the government in its war financing and in holding the line against inflation.

"By authorization of Congress in 1933 and 1934, the Treasury invested $49,300,000 and the HOLC placed $223,856,710 in about 1400 applicant associations. Of these amounts, $227,615,700 went to Federal savings and loan associations—a new type of thrift institution authorized in 1933 — and $45,541,010 to state-chartered associations.

"At one time, government funds in Federal associations amounted to more than one-fourth of their total share capital," said Mr. Twohy. "Today that proportion is no more than 2.3%. A large proportion of these institutions have retired the Government's investments in full."

Calendar of New Security Flotations

Following is a list of issues whose registration statements were filed less than twenty days ago. These issues are grouped according to the dates on which the registration statements will in normal course become effective, that is twenty days after filing (unless accelerated at the discretion of the SEC), except in the case of the securities of certain foreign public authorities which normally become effective in seven days.

These dates, unless otherwise specified, are as of 4:30 P.M. Eastern War Time as per rule 930 (b).

Offerings will rarely be made before the day following.

MONDAY, AUG. 30

REPUBLIC DRILL & TOOL CO.

Republic Drill & Tool Co. has registered $1,250,000 5% convertible debentures, due Aug. 1, 1953, and 296,875 shares of common stock, par $1, to be issued upon conversion of debentures.

Address—322 South Green Street, Chicago.

Business—Engaged in the manufacture and sale of high speed and carbon twist drills.

Underwriting—Wyeth & Co., New York and Los Angeles.

Offering—Price to public 100 and accrued interest from Aug. 1, 1943, to date of delivery.

Proceeds—Of the net proceeds, the company will apply $100,000 to retire its outstanding bank loan, $125,000 toward the retirement of outstanding convertible preferred stock, and the balance to working capital.

Registration Statement No. 2-5197. Form A-1. (8-11-43).

TUESDAY, AUG. 31

BRANIFF AIRWAYS, INC.

Braniff Airways, Inc., has filed a registration statement for 400,000 shares of common stock, par value $2.50.

Address—Love Field, Dallas, Texas.

Business—Company is fifth largest commercial airline in the country in passenger miles flown. It has applications pending for extensions of its domestic routes.

Offering—Price to the public will be supplied by amendment.

Underwriting—F. Eberstadt, New York, heads the group of underwriters. Others will be named by amendment.

Proceeds—Company intends to add the net proceeds from the sale of the stock to its general funds as additional working capital. Proceeds subject to foregoing may be applied to replacement of flight equipment requisitioned by the government; to purchase of additional equipment necessary to meet passenger and cargo traffic requirements on present and proposed domestic routes; to purchase of planes incident to operation of proposed trade-area feeder system and purchase of planes and other equipment for initiation of operations of proposed foreign routes.

Registration Statement No. 2-5198. Form S-1. (8-12-43).

WEDNESDAY, SEPT. 8

DRAKE TOWERS, INC.

W. L. Cohrs, John P. Hooker, E. A. Tittle, John T. Wheeler and F. Hampden Winston as trustees have filed a registration statement for voting trust certificates for 28,209 shares of common stock, par $1 per share, of Drake Towers, Inc.

Address—Principal office Room 1730, 23 South Clark Street, Chicago.

Business—Apartment building located at 171-179 Lake Shore Drive, Chicago.

Underwriting—None.

Offering—As soon as practicable after registration statement becomes effective.

Purpose—The securities are presently subject to a stock trust agreement which expires Oct. 1, 1943. It is proposed to extend the agreement, as amended, to Oct. 1, 1953.

Registration Statement No. 2-5204. Form F-1. (8-20-43).

DATES OF OFFERING UNDETERMINED

We present below a list of issues whose registration statements were filed twenty days or more ago, but whose offering dates have not been determined or are unknown to us.

IOWA POWER & LIGHT CO.

Iowa Power & Light Co. has filed a registration statement for $17,000,000 first mortgage bonds, 3¼% series due June 1, 1973.

Address—312 Sixth Avenue, Des Moines, Iowa.

Business—Is a public utility engaged in the business of furnishing electric service in Polk County, outside the City of Des Moines and environs, and in 12 contiguous counties in Central Iowa, and furnishing gas service in the City of Des Moines and environs, and in two municipalities in adjoining counties.

Underwriting—Bonds are to be offered for sale at competitive bidding under the rules of the Commission. Names of the underwriters will be supplied by post effective amendment.

Offering—Price to the public will be supplied by amendment.

Proceeds—Bonds are to be issued as part of a series of interdependent transactions which include the acquisition by Continental Gas & Electric Co. of Iowa Power & Light Co. and Des Moines Electric Light Co. from Illinois Iowa Power Co. Proceeds from the sale of the bonds, together with a portion of funds to be received from bank loans aggregating $2,500,000, will be used to redeem on Sept. 1, 1943, a total of $11,232,000 face amount of the company's first mortgage bonds; to redeem on Oct. 1, 1943, 10,133 shares par $100 of the company's 7% cumulative preferred stock; to the purchase from Illinois Iowa Power Co. of $1,750,000 face amount of general refunding mortgage bonds, Series A, due 1955, and $3,000,000 of open account indebtedness of Des Moines Electric Light Co., $4,750,000; to partial payment for Iowa properties of Iowa-Nebraska Light & Power Co., $1,000,000 and for other corporate purposes.

Registration Statement No. 2-5138. Form S-1. (5-12-43).

Registration statement effective 5:30 p.m. EWT on Aug. 19, 1943 as of 5:30 p.m. EWT July 17, 1943.

Bids for the sale of the bonds will be received at office of United Light & Power Service Co., 105 W. Adams St., Chicago, up to 2 p.m. CWT on Aug. 20, 1943.

PENNSYLVANIA ELECTRIC CO.

Pennsylvania Electric Co. has filed a registration statement for $4,000,000 first mortgage bonds series due Sept. 1, 1973 and 35,000 shares cumulative preferred stock Series B $100 par value. Interest rate on the bonds and dividend rate on the preferred stock will be supplied by amendment.

Address—222 Levergood Street, Johnstown, Pa.

Business—Principal business is the production, transmission, distribution and sale of electricity.

Underwriters—To be supplied by amendment.

Offering—As soon as practicable after registration statement becomes effective company will ask for bids under competitive rule of the Securities and Exchange Commission for the sale of the bonds and preferred stock. Prior to the issuance of the securities registered company will acquire common stock, assets and franchises of Erie County Electric Co. Company also proposes to acquire assets and franchises of Keystone Public Service Co. and Bradford Electric Co., affiliated companies. Applications for all such acquisitions are now pending before the Commission.

Proceeds—Net proceeds from the sale of bonds and stock will be applied to the extent necessary to redeem indebtedness and preferred stock of the merged companies as follows: To redemption on Oct. 1, 1943, of all of the outstanding first mortgage gold bonds, 5% series due 1978, of Keystone Public Service Co., including estimated interest, $4,175,000, and to the redemption on or about Sept. 1, 1943, of all of the then outstanding 5% non-voting preferred stock, $100 par, of Erie County Electric Co. $3,500,000, total $7,675,000. Balance of proceeds, if any, will be added to general funds of the company.

Registration Statement No. 2-5195. Form S-1. (8-5-43).

Registration statement effective 5:30 p.m. EWT on Aug. 21, 1943.

Bids for the purchase of the bonds and preferred stock will be received by the company at Room 2624 61 Broadway, New York City up to 12 noon EWT on Aug. 30, 1943.

(This list is incomplete this week)

Public Utility Securities

(Continued from page 823)

basis would be higher). Earnings on United common receded from 22c a share in 1937 to the present deficit.

If the commission follows past precedent in the Federal Water and United Light & Power cases, the new common stock might be assigned in the ratio of 95% to preferred and 5% to common. On this basis, and estimating the liquidating value at approximately $110,000,000, the equity for the preferred would be $42 a share and for the common 38c a share. These figures compare with the present quotations of 29½ and 1.

The management will probably contend that the common stock is entitled to a "better break." The principal basis of such a contention would be future recovery of earning power when the wartime burden of heavy taxes is lifted, permitting Public Service of N. J. and other subsidiaries to pay larger dividends. Moreover, the fact that cash remains ample to take care of the small preferred arrears is a point in favor of the common stock. Preferred stockholders could afford to be generous if this would expedite a settlement, since it might eventually place their own stock on a more regular and assured dividend basis and probably narrow the present gap between market and liquidating values—which seems considerably wider than for the average high-grade investment trust such as Lehman Corp., National Bond & Share, etc.

Government Policies Seen Inflationary

(Continued from page 782)

more and still more.

"When the President nominated industry as the job-giver in his recent radio promises to future veterans he put us on the spot. If government does not permit us to deliver it can then move in on us with its responsibility for the idle war veterans and war plant workers.

"Only recently the Chief Executive seized 15,000 mines when the miners struck and defied the Government and interrupted the supply of coal for our wartime industries. Instead of occupying the management offices with troops, the President should have occupied the union headquarters.

"I think there is evidence that when the struggle ends for the troops, it will begin for free enterprise."

Incident to President Roosevelt's planning a post-war world and the expectation that Congress will also act in the matter, Mr. Sykes said:

"In all this planning there is one fundamental test: what is the intention of each plan?

"We hold it is not the duty of Government to dominate enterprise except in a national emergency. And after the national emergency, it is the duty of Government immediately to set enterprise free. The normal domestic powers of Government are police powers."

Mr. Sykes is also reported as saying that the country might count on getting out of the war into full peacetime operations without any abrupt or large unemployment, were it not for certain bottlenecks under government control.

Association Of Securs. Commissioners To Hold Convention

On Aug. 31, Sept. 1 and 2, 1943, the National Association of Securities Commissioners will hold its twenty-sixth annual convention in Cincinnati at the Netherland Plaza.

On Tuesday afternoon, Aug. 31, there will be an address by Hon. Brooke Claxton, K. C., M. P., D. C. M., parliamentary assistant to the Prime Minister, Dominion of Canada. On Wednesday during the various sessions will be addresses by Mr. Emil Schram, President of the New York Stock Exchange; Mr. Robert R. O'Brien, Commissioner Securities and Exchange Commission; Mr. Jay N. Whipple, President of the Investment Bankers Association of America, and at the banquet Wednesday evening, by Hon. John W. Bricker, Governor of Ohio. On Thursday morning, the president of the Association of Securities Commissioners, Mr. Joseph Schneider, Chief of the Division of Securities of the State of Kentucky, will make an address, and during the day there will be reports of committees and discussions by those attending.

The Association takes considerable pride in promoting mutual understanding, cooperation and good will among the various supervisory bodies and the security industry. In furtherance of this feeling of mutual understanding, securities dealers are cordially invited to attend the convention. In addition to the educational features, the convention affords a splendid opportunity for dealers and commissioners to exchange comments and ideas in the informal atmosphere which will prevail.

A dinner party is being given Tuesday evening under the sponsorship of Ohio and Kentucky dealers, to which all those attending the convention are cordially invited.

Investment Trusts

(Continued from page 825)

Neutrals

Sweden	71%
Switzerland	97%

* * *

"A reasonable expectation is that wholesale price controls, which are relatively easy to enforce, will be well maintained through the rest of the war and that **the over-all index at war's end should not be more than 10% above the present level.** Beneath the surface, however, inflationary force goes on gathering strength. . ."

"As a matter of fact, we may add, **there is no solution** of the problem now in the making or in prospect. The practical question to consider is not **whether** post-war inflation is coming but only **how much and when. . . .**"

"The wholesale price index, at war's end, after allowing for an assumed 10% rise from the present level, will be 27% below 1920 and 19% above 1929. Obviously, in view of the tremendous enlargement of buying power activated by strong buying motives, prices cannot conceivably stay put on the war's-end level. How much higher they will go is not calculable when so many factors, including human reactions, are unknown.

"**It would be indeed surprising, however, if wholesale prices were not at least doubled on the average; and there is no apparent reason why they should stop at that point.** In other countries, under broadly similar circumstances, inflation has reached much greater heights.

"We have already suggested that the post-war inflationary boom will develop rapidly. The stage will be set well in advance; the actors will be ready, for inflation is almost universally expected; and the big show will start promptly. If so, it is not likely to have a long run—**perhaps two or three years, judging by previous experiences, before it reaches its culmination, and a new kind of show begins.**"

Attractive Peace Stocks

Majestic Radio & Television Corporation, Bendix Home Appliances, Inc., and Loft Candy are three attractively situated peace stocks, according to a memorandum issued by J. Arthur Warner & Co., 120 Broadway, New York City. Copies of this interesting memorandum may be obtained from J. Arthur Warner & Co. upon request.

Attractive Possibilities

The first mortgage 6s and common stock of Empire Sheet & Tin Plate Co. offer interesting possibilities at current levels according to a memorandum being distributed by Hill, Thompson & Co., Inc., 120 Broadway, New York City. Copies of this memorandum may be had from the firm upon request.

Ins. Stock Looks Good

North American Life Insurance Co. of Chicago offers an attractive situation, according to a circular being distributed by A. A. Bennett & Co., 105 South La Salle St., Chicago, Ill. Copies of this interesting circular may be obtained upon request from A. A. Bennett & Co.

Interesting Situation

Great American Industries offers an attractive situation at the present time according to a circular being ditsributed by L. D. Sherman & Co., 30 Pine Street, New York City. Copies of this interesting circular may be obtained from the firm upon request.

Stokely Interesting

Stokely Bros. & Co. 5% preferred offers attractive possibilities, according to Reynolds & Co., 120 Broadway, New York City, members of the New York Stock Exchange. An interesting basic report upon the situation may be had from Reynolds & Co. upon request.

Situations of Interest

The current situations in The National Radiator Company and Public National Bank and Trust Co. offer attractive possibilities, according to memoranda being distributed by C. E. Unterberg & Co., 61 Broadway, New York City. Copies of these interesting memoranda may be had from the firm upon request.

"Our Reporter On Governments"

By S. F. PORTER

There's a story around that 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 the new 2% bonds, to be issued in September. . . . For these banks, such advice definitely makes sense. . . . In fact, what's surprising is that it has to be given at this late stage. . . . Any institutions which don't need tax-exemption and are favored under the law certainly may benefit themselves by buying taxables, increasing their yields and freezing the high profits in the exempts. . . . Insurance companies have been liquidating their exempts for months, are now about finished with the program, according to best reports. . . . The larger, more alert savings banks also have been on a selling program for months, are today pretty nearly done with the job. . . . So the advice to other savings banks to liquidate the shorter-terms and buy the more profitable 2s may be considered as directed at smaller, out-of-town institutions. . . .

And the pressure on the exempts due up to 1951 may be traced to this source. . . . That pressure has been noticeable, incidently. . . . Particularly on such issues as the 3¼s of 1946-44, the 4s of 1954-44, the 2¾s of 1947-45, the 3¾s of 1956-46, the 3s of 1948-46 and the 4¼s of 1952-47. . . . All high-premium bonds, all with short maturity dates and near-term call dates. . . . And on a yield basis, a savings bank may look with envy at the return to be received on the when-issued 2s of 1953-51. . . .

But the most intriguing point of this report is the chance it gives to commercial banks and other institutions and individuals to pick up some tax-exempts while the market is quiet and under some disadvantage. . . . Buying short-term exempts isn't so smart. . . . The need for constant roll-over is too geat, the nuisance of holding a bond you know you'll have to get rid of in the near future seems too overwhelming. . . In addition, the premiums are on the heavy side. . . . But buying long-term exempts during this period of dullness is something else again. . . . While the market is absorbing the liquidation of the short-term exempts, the longs may not get anywhere. . . . They've this pressure and the general "sidelines psychology" to battle beween now and September and the fact that they're holding up so well is surprising indication of their inherent strength. . . . But buying for a quick profit and a long turn are two different things. . . .

And the long-term exempts still carry the same advantages to institutions bothered with tax problems as they did three months ago, when everybody was bullish and praising the exempts was the order of the day. . . .

THE DRIVE

Secretary Morgenthau was smart to omit mention of the subscription goal for banks when he issued the last circular describing the September "basket." . . Good idea to leave this subject of bank totals strictly alone until both the Secretary and the market can tell how the fall campaign is going. . . . Then Morgenthau can boost or cut the subscription goal, depending on the amount of billions he gets from non-banking sources. . . .

As for his comment on non-trading in the 2s until after the banks buy their bonds, that's also excellent common sense. . . The way the circular reads is this:

"In keeping with this objective (sale of bonds to non-banking investors), the official circulars governing the 2% bonds and the certificates of indebtedness contain an express request that commercial banks not purchase and that subscribers not trade in these securities (the 2s and c.is) 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."

To get the meaning of this, think back to the December financing. . . . During that campaign, the banks received their privilege of subscribing first. . . . Their books were closed and then for three weeks thereafter, non-bank subscribers purchased their allotments. . . . The market was "caught" as a result of that procedure. . . . For bankers 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. . . . Maybe they paid up 1/32 or so for the assistance, but they rounded out their portfolios while the actual market was "sitting," awaiting the conclusion of non-bank subscriptions in order to place a price on the new obligations. . . . It was all rather confusing, unnecessarily so. . . .

This time, non-bank subscriptions will be finished with before the banks come in. . . . Then after all books are closed, trading will begin. . . . And people who bought on the non-banking drive will know within 10 days or two weeks what premiums are going to exist on the various issues. . . .

THE NEW 2s

Those 2% bonds probably will be excellent for trading and quick profit purposes. . . . Judging from the way the outstanding 2s are remaining firm and from the general stability of issues in the 1943-51 range. . . For instance:

The 2s of 1955-51 are bid at 100.14, offered at 100.16;

The 2s of September, 1952-50 are at 100.18, 100.20;

The 2s of March, 1952-50 are at 100.25-100.27;

The 2s of 1951-49, due in June, September and December are selling between 101.1 and 101.12.

These new 2s will be 1953-51 bonds, which puts them right in there, snugly fitting between the 1955 issue and the 1952 loan. . . .

Another highly significant indication is the high quotation on the maturing 3¼s of 1945-43, to be paid off through an exchange offer also shortly after the close of the third war loan drive (What a month for Government financing!) . . .

The 3¼s today are selling at 100.16-100.18, equivalent to a minus yield of 4/32. . . . In short, the holders of these are wagering right now on at least a ¼ point premium on the new 2s. . . . And that's a sufficiently high premium guess for this early date in August. . . .

INSIDE THE MARKET

Chances for any important action in the market between now and mid-September are slight. . . .

Savings banks to some extent are liquidating the short-term exempts. . . . Commercial banks also are getting ready for the drive and are not going to enter the lists and use up their cash now to pick up securities. . . . Individuals following the same course and dealers just sitting along and waiting too. . . . So "waiting market" is not only logical but also unavoidable. . . .

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

Intermediates and shorts may go off, if slight reaction does continue, more than longs. . . . No major selling pressure on long-term market while there is some showing up in shorter classifications. . . .

Another expert wagers "the 2¾s of 1965-60 will start rising during the September drive." . . . That's the key issue of the long-term tax-exempts, which still is holding the 112 level and is acting beautifully during this consolidation period. . . .

Amusing thing happened on the discount bill issue this past week. . . . Issue was $1,000,000,000 total, as usual. . . . But Treasury, thinking of Armistice Day three months from now, wrote into the offering circular that the issue would mature in 92 rather than 91 days. . . . Apparently, many out-of-town banks didn't notice that difference and placed their bids for the bills on the 91-day basis. . . . Result was the New York banks, which did—and do—watch these things closely nosed out the out-of-town institutions by bidding properly. . . .

Results. . . . New York district was alloted $654,000,000 out of the week's billion-dollar total. . . . A terrific amount for one region. . . .

And second result. . . . The Federal Reserve Bank of New York unquestionably will be called upon to pick up a larger-than-usual amount of the bills under the long-standing repurchase agreements. . . .

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Forgie To Be Partner In Kohler, Fish Co.

David F. Forgie, member of the New York Stock Exchange, will become a partner in the Stock Exchange firm of Kohler, Fish & Co., 63 Wall Street, New York City, on Sept. 1. On the same date the firm name of Kohler, Fish & Co. will be changed to Kohler & Co.

On Aug. 31, Robert C. MacCorkle, a member of the Exchange, will retire from partnership in the firm.

FIC Banks Place Debs.

An offering of $14,875,000 0.80% consolidated debentures of the Federal Intermediate Credit Banks was made Aug. 17, at par, by Charles R. Dunn, New York, fiscal agents for the banks. The debentures are dated Sept. 1, 1943 and mature June 1, 1944. The proceeds from the sale of the debentures will be used to pay off $14,875,000 of the $31,215,000 debentures maturing Sept. 1, 1943, the balance of $16,340,000 being met from cash on hand. At the close of business Sept. 1, 1943, the banks will have a total of $280,810,000 debentures outstanding.