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Wheeler Urges President To Appeal To People Of Europe

Senator Wheeler (Dem., Mont.) called on President Roosevelt on Sept. 2 to act immediately "to define unconditional surrender and appeal to the people of Europe to abandon the false path of militarism, intolerance and brutality."

Burton K. Wheeler

In a letter to the President, Senator Wheeler expressed the belief that Mr. Roosevelt "can now bring about peace in Europe and establish democracy throughout that war-torn continent."

Mr. Wheeler's letter follows, according to United Press advices from Helena, Mont.:

"Dear Mr. President: As a non-Catholic I want you to know that I am wholeheartedly in accord with the statement of Pope Pius XII that 'the soul of all people is revolting against violence,' and that 'people who have suffered so

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In This Issue

Special material and items of interest with reference to dealer activities in the States of Illinois & Wisconsin appear in this issue. Illinois, page 1002; Wisconsin, page 1004.

For index see page 1012.

New Frontiers Of Business Development Seen By Schram

Government Must Accord Freedom Needed By Business Would Redesign Tax Structure and Amend Law to Encourage Venture Capital—End of Excess Profits Taxes Urged After War

Stressing the necessity of according competitive enterprise, the freedom necessary for its proper functioning, Emil Schram, President of the New York Stock Exchange, declared at Louisville, Ky., on Sept. 2, that "if government will allow business and enterprise the freedom they need, we can, I believe, look forward to a high national income, to a resumption after the war of a steady improvement in our standard of living, to an era of security and revitalized democracy, to new frontiers of business development and to new markets for the American products of peace and good-will."

Emil Schram

Mr. Schram, whose informal remarks were presented before the Ohio Valley Group of the Investment Bankers' Association, pointed out that "the American people are today taking great pride, as they have a right to do, in the superlative performance of our industrial and business system in producing and delivering the sinews of war."

'Private enterprise," he went on to say, "never before has done such a magnificent job at so small a profit and with less complaint. This, it is plain to see, has given our people renewed confidence in our system and has strengthened the faith of those who cherish

(Continued on page 1003)

SEC Death Sentence Activities In Wartime Threaten Private Enterprise

By CHARLES TATHAM, JR.

Despite its claims to the contrary, pressure by the Securities and Exchange Commission for immediate compliance by holding companies with the "death sentence" provisions of the Holding Company Act in the present war emergency is contributing to the nationalization of privately owned electric and gas utilities. Through forcing the disposal by holding companies of operating subsidiaries at a time when taxes assessed by the Federal Government consume over 15% of operating revenues, SEC "death sentence" orders are driving operating electric and gas utilities into ownership by their served communities, which pay no Federal taxes on profits derived from business undertakings. Unless Congress puts a stop to this bureaucratic activity for the duration, socialization of an important field of American enterprise will be well advanced by the time the war is over.

Charles Tatham, Jr.

Although the Holding Company Act received Presidential approval more than eight years ago, its first 4 subsections of Section 11, which comprise the so-called "death sentence," did not become effective until January 1,

(Continued on page 1004)

Post-War Inflation— What To Prepare For

Reprinted by permission of "The Economic Future," a service conducted by Tradeways, Inc., 285 Madison Avenue, New York, N. Y.

Inflation is talked about interminably; but nearly all the current talk relates to price control **during the war**—a question which has little direct bearing on business planning.

As to inflation **after the war** not much is being said—certainly not much that is definite or helpful. Yet few subjects are of greater importance to one who is looking a little distance ahead.

This report breaks new ground. It attempts to measure roughly **the extent** of anticipated price advances and their **timing.** The chief conclusions we reach are:

1. Wholesale prices, on the average, will probably rise **at least 100%** and may go a great deal higher.
2. At war's end inflation will start **quickly** and will rise to a climax **within two or three years.**

In the nature of things such forecasts must be highly tentative. They necessarily start with assumptions which may or may not be realized. Yet even with these reservations they are **better guides for post-war planning,** we believe, than have previously been available.

You may not find the report easily readable; for it rests on an analysis of statistical data. And the subject has **too much practical importance** to be presented without adequate explanation. We feel, however, that most of our subscribers will want to check for themselves the reasoning behind the conclusions, and then form their own judgments.

I. FIRST PRINCIPLES

Everyone agrees that inflation is primarily a monetary phenomenon. Indeed, Professor Kemmerer goes so far as to make the flat statement: "Inflation is too much money and deposit currency—that is, too much currency in relation to the physical volume

(Continued on page 1006)

The Future Of Interest Rates

With Special Reference To The Treasury's Borrowing Policy

In his article which appeared in the "Chronicle" of Aug. 26, captioned as above, Benjamin M. Anderson, Ph.D., Professor of Economics at the University of California and former economist of the Chase National Bank of the City of New York, presented an extremely profound analysis of the probable future trend of interest rates. The author, who is recognized as a leading international authority on fiscal and monetary matters, discussed this important subject objectively and in light of the fundamental factors which inevitably must govern the movement of interest rates.

Since publication of the article, a large number of comments have been received regarding the views and conclusions drawn by this eminent authority on the subject. Some of the letters were given in these columns on Sept. 2; more are given below and others that cannot be accommodated in this issue will appear in subsequent issues.

ROBERT M. HANES

President, Wachovia Bank and Trust Company, Winston-Salem, N. C.

I have read with great interest Dr. Anderson's article on "The Future of Interest Rates." It seems to me he is a bit ponderous in arriving at his conclusions. I agree thoroughly with his conclusion that the Treasury should be realistic and pay a reasonable rate for the money it is borrowing. I also agree with his condemnation of the Treasury's procedure in selling demand bonds to the public at low rates of interest. This policy is only storing up trouble for some future Secretary. Certainly we are bound to have higher rates of interest sometime in the future, and then all of these bonds will be cashed in a very short period of time. A much more sensible and realistic policy would be to sell the public long bonds at a reasonable rate now.

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Robert M. Hanes

I disagree with his statement that banks should be permitted to buy the higher interest bonds at a discount. Well run banks have staggered their maturities pretty evenly over a 10-year period; therefore, in a short period of time, they will be able, as their bond portfolio matures, to invest in bonds with higher yield. With the deposits of banks guaranteed and with a great many of their loans guaranteed, if, in addition, they ask for a discount to protect them on their bond portfolio, we would only play into the hands of those who are already advocating Government banking. I think bankers must, as quickly as possible, abandon all Government guarantees and get back to risk taking, which is their normal function.

W. H. WOOD,

Chairman of Board, American Trust Co., Charlotte, N. C.

While I have been working in a bank fifty years continuously last month, I cannot claim, by any means, to be an economist on money matters relating to the entire country or the world. So far in my life, as the head of this bank for a little over 42 years, my policy has been to stay conservative and safe all the time, and we have reason to believe that we will remain that way in the future years.

Word H. Wood

Fundamentally, Dr. Anderson's thoughts are sound, and I believe like he, that the Federal Government has entirely too much demand obligations outstanding, and the only way I know of that they can convert these demand obligations into long term bonds would be to pay a higher rate of interest to investors. I am doubtful, however, as to the willingness of the Federal Government to do this.

The United States Treasury has (Continued on page 1010)

Fox, Reusch & Co. Adds Frank Hailstone

(Special to The Financial Chronicle)

CINCINNATI, Ohio.—Frank E. Hailstone has become affiliated with Fox, Reusch & Co., Dixie Terminal Building. Mr. Hailstone was formerly with Katz & O'Brien in their municipal trading department and prior thereto represented C. F. Childs & Co. in Cincinnati.

Elliott And Nichols With Hill, Richards

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—James G. Elliott and Arthur E. Nichols have become associated with Hill, Richards & Co., 621 South Spring Street, members of the Los Angeles Stock Exchange. Mr. Elliott was previously vice-president and manager of the sales department for Fox, Castera & Co. with which he was associated for a number of years. Mr. Nichols was with Blyth & Co., Inc.

"Bondistics"

Security Adjustment Corporation, 16 Court Street, Brooklyn, N. Y., have prepared an attractive booklet on "Bondistics," which they define as the branch of financial science dealing with the bonded indebtedness of corporations with regard to such bond values as they apply to the individual investor's problems as to safety of principal and income and profit. Contained in the booklet are interesting analyses of several situations.

Copies of this booklet may be obtained from Security Adjustment Corporation.

Attractive Situations With Peace Prospects

Farnsworth Television and Crowell-Collier offer attractive situations with interesting prospects for peace time, according to circulars prepared by J. F. Reilly & Co., 111 Broadway, New York City. Copies may be had from J. F. Reilly & Co. on written request.

Now Kline, Lynch & Co.

(Special to The Financial Chronicle)

CINCINNATI, Ohio. — As of September 1st the firm name of P. E. Kline, Inc., Carew Tower, was changed to Kline, Lynch & Co., Inc. Officers of the firm are Percy E. Kline, president and Francis James Lynch, vice-president.

Two With Gordon Graves

(Special to The Financial Chronicle)

CORAL GABLES, Fla.—Herbert N. Crowder and Mrs. Frances S. Huey have become affiliated with Gordon Graves & Co., 204 Alhambra Circle. Mr. Crowder was previously in the sales department of Corrigan & Co., Miami, with which Mrs. Huey was also associated.

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Subscriptions in United States and Posessions, $26.00 per year; in Dominion of Canada, $27.50 per year; South and Central America, Spain, Mexico and Cuba, $29.50 per year; Great Britain, Continental Europe (except Spain), Asia, Australia and Africa, $31.00 per year.

NOTE—On account of the fluctuations in the rate of exchange, remittances for foreign subscriptions and advertisements must be made in New York funds.

NASD Raises Member And Assessment Fees

The National Association of Securities Dealers, Inc. will increase fees and assessments 50% and 75% because of a severe decline in underwritings and personnel in the business, according to a membership letter now being circulated.

The basic membership fee will be raised from $30 to $45, the assessment for each unit of personnel, from $3 to $4.50, and the underwriting assessment from 0.01% to 0.0175%. In a condensed financial statement accompanying the letter to members, it was indicated that by the end of the year, September 30th, the Association's operating expenses will have exceeded income by $77,888.

"The Finance Committee," declares the letter signed by Wallace H. Fulton, Executive Director, "expects that members will understand the necessity for the higher assessment of the coming year. Higher assessments are necessary first because of the severe decline in underwritings and, second, because of the sharp decline in the number of personnel engaged and employed in the business."

Frank H. Scheffey of the New York office of the NASD stated that every effort is being made to cut administrative expenses, with drastic cuts in the number of staff personnel. Also members are being asked to fill out questionnaires on trades in a given period, to take the place of the very costly personnel inspections which have previously taken place.

Cashiers Ass'n Outing

The annual outing of The Cashiers Association of Wall Street, Inc., will be held on Saturday, Sept. 11th, at Creedmoor Rest, Creedmoor, Long Island.

Italian Forces Surrender

The unconditional surrender of the Italian armed forces was announced yesterday (Sept. 8) by Gen. Dwight D. Eisenhower, Commander in Chief of Allied Forces, at headquarters in North Africa.

The surrender came five days after British and Canadian forces had invaded and occupied a portion of southern Italy. Allied headquarters had reported earlier on Sept. 8 new advances by the military forces putting them in control of an area of about 100 square miles.

The Allied forces, following their 38-day conquest of Sicily, had landed on the Italian mainland on Sept. 3, the fourth anniversary of Britain's declaration of war against Germany.

Italy had been in the war since June 10, 1940, when Italian forces marched on France after the German Army was closing in on that country.

C. S. Jameson With G. Brashears & Co.

(Special to The Financial Chronicle)

LOS ANGELES, Calif.—Claude S. Jameson has become associated with G. Brashears & Co., 510 South Spring Street, members of the Los Angeles Stock Exchange. Mr. Jameson was formerly manager of the bond trading department of Fairman & Co. and prior thereto served in a similar capacity with Thomas E. Adams & Co. and Griffith-Wagenseller & Durst.

H. B. Keeler Forms Own Investment Firm

(Special to The Financial Chronicle)

CLEVELAND, Ohio.—Horace B. Keeler has formed Keeler & Company with offices in the Union Commerce Building, to engage in a general securities business. Mr. Keeler was formerly vice-president of Ball, Coons & Co. in charge of the corporate bond department. Prior thereto he was in business as an individual dealer and was an officer of Mitchell, Herrick & Co.

Dunne Of N. Y. Security Dealers Ass'n Takes Issue With Caffrey Of SEC On Selling On A "Net" Vs. An Agency Basis In Over Counter Mart

James J. Caffrey, regional administrator in the New York office of the Securities and Exchange Commission, has admitted in reply to questioning that the Commission staff has been surveying the problem of "riskless" transactions in listed securities in the over-the-counter markets. He declared that in his opinion broker-dealers should charge commissions rather than sell to customers on a so-called "principal basis" at prices which include their profits, where there is no risk involved.

The problem, although emphasized by the prevalence of off-the-board deals in listed securities, is not confined to them, Mr. Caffrey stated, adding that "in any case, it seems to me that, where there is no risk involved, the broker-dealer must act as a broker."

Mark-ups of as much as 2¼ points over the high of the day on stocks and of 5% on bonds have been revealed by the SEC investigation, Mr. Caffrey said.

Frank Dunne, president of the New York Security Dealers Association, according to an item in the New York "Times," expressed himself in favor of handling riskless transactions on an agency basis, but in a statement clarifying his position declared that this was only in the case of transactions on exchanges in which a dealer who has obtained an order from a customer, buys the security on an exchange and resells it simultaneously at a mark-up. He said that in his opinion such transactions should be confirmed to the customer to show the cost of the security, the commission paid by the dealer, and any additional service charge or commission that the dealer might make to compensate him for his effort.

Sidney Lanier Elected V.-P. and Treasurer, R. G. Wasson V.-P. Of J. P. Morgan & Co.

The Board of Directors of J. P. Morgan & Co. Incorporated, 23 Wall Street, New York City, at their regular meeting yesterday appointed Sidney Lanier Vice-President and Treasurer, and appointed R. Gordon Wasson Vice-President.

Mr. Lanier was born at Greenwich, Conn., in 1901. He was graduated from Princeton University in 1924 and entered the employ of the firm of J. P. Morgan & Co. in the following year. Since J. P. Morgan & Co. was incorporated in 1940 he has been its Treasurer.

Mr. Wasson was born in Great Falls, Mont., in 1898. He was graduated from the Columbia School of Journalism in 1920. After a year as instructor at Columbia College, he worked for the New Haven "Register" and later for several years for the New York "Herald Tribune." In 1928 he joined the staff of The Guaranty Company of New York, and in 1934 the staff of J. P. Morgan & Co. He was appointed Assistant Secretary of J. P. Morgan & Co. Incorporated on July 16, 1941.

Safety Car Looks Good

Safety Car Heating & Lighting common offers 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.

Bruns, Nordeman Co. Open Securities Dept.

Bruns, Nordeman & Co., 323 Broadway, New York City, well known Worth Street brokers are opening a Securities Department in addition to their present cotton business.

This is the first firm of cloth brokers to be elected members in the history of the New York Stock Exchange.

Both Mr. Bruns and Mr. Nordeman have been prominently identified with the cotton textile industry since 1908, and in 1923 formed their original company. In 1928 the firm joined the New York Cotton Exchange and added their present raw cotton department.

The new department will be under the co-management of Ray S. Radow and Arnold B. Wayne.

Formation of this investment department, which will be equipped with an up-to-date statistical bureau, will round out a complete brokerage organization.

C. J. Devine & Co. Opens New Branches

C. J. Devine & Co., specialists in United States Government securities, announce the opening of offices in Pittsburgh in The First National Bank Building, and in Cleveland in the Union Commerce Building. The company maintains offices in New York, Chicago, Boston, Philadelphia, Cleveland, Cincinnati, St. Louis and San Francisco.

Now Proprietorship

PORTLAND, ORE.—J. Gilbert Robbins is now sole proprietor of Holt, Robbins & Co., Porter Building. Mr. Robbins was formerly president of the company. Associated with him will be Frank W. Humphrey, J. H. Reed, and Preston Holt, who was formerly an officer of the corporation.

Real Estate Securities

BEACON HOTEL 4% INCOME BONDS
A Low Price Hotel Bond Speculation

The bonds of this hotel are currently offered at about 17%, placing a value on the $4,450,000 bond issue of $756,500. Adding this figure to the first mortgage of $370,000, places a value of $1,126,500 for the entire property.

The 1942-43 assessment of the City of New York of the value of the property was $3,750,000, of which the land alone was valued at $1,075,000. This assesesd value was lowered from a much higher figure as a result of court actions.

Comparison of the above figures show us that at the current market price of the bonds, it is possible to buy into this property at a price just slightly higher than the assessed value of the land alone with a 24-story hotel building and theatre thrown in for nothing.

The bonds are secured by a mortgage subject to the first mortgage on land owned in fee occupying the entire block front on the south side of 75th Street, between Amsterdam Avenue and Broadway, New York City, together with the 24-story apartment hotel and the motion picture threatre standing thereon. The land fronts 157 feet on Broadway, 212 feet on 75th Street and 150 feet on Amsterdam Avenue, and comprises a total ground area of approximately 29,400 square feet. The hotel building, occupying the entire Broadway frontage and running back 120 feet on 75th Street, contains 494 rentable rooms divided into some 320 suites of which approximately 65% are furnished. The theatre, having an entrance on Broadway, occupies the remainder of the plot and contains about 2,600 seats.

Upon completion in 1941 of the company's tax reduction suit against the city, a first mortgage was placed upon the property for the purpose of paying old taxes. This mortgage is held by the Massachusetts Mutual Life Insurance Company. The mortgage is due January, 1958 and bears interest at 4% per annum. Beginning July 1, 1943, $6,475 is payable quarterly for both interest and principal; a total of $25,900 per year.

Bonds outstanding are $4,450,000 and carry with them stock representing an equal share in 85% of the ownership of the property. The balance of the stock was given to old junior lien bondholders at the time of the reorganization of the property in 1938.

Interest on the bonds is payable up to 4% if earned and excess earnings are to be used for bond retirement. Interest is distributed annually on April 1st and payable out of the earnings for the 12 months ended January 31st.

An initial payment of $5 per $1,000 bond was made on April 1, 1942 and a similar payment was made on April 1, 1943.

Larger payments in the future are hoped for as a result of a new aggressive management.

In April, 1943 the voting trust expired and a group of large bondholders induced the other bondholders to discontinue the voting trust and elect them as directors. This group has in the past taken over the management of property secured by other bond issues. Their management in these cases has been unusually good and the bondholders seemed to have benefited considerably through their efforts.

At the start of their management of the Beacon Hotel, voting trustee fees were eliminated and they reduced the compensation for officers and directors from $9,000 per annum to $4,800 per annum as their first step to materially curtail expenses.

An important source of income to the property is the 2,600-seat theatre. Originally leased at a minimum rental of $90,000 per annum, this theatre is now leased at the low figure of only $40,000 per annum. However, this lease expires in August, 1944 and the new management hopes for a substantial increase in the income of this portion of the property.

We understand the current earnings of the property are ahead of last year and if there is no drastic change in present occupancy the full year earnings for 1943 will show a substantial improvement over that of 1942. The new management also anticipates success in their efforts for a further reduction in assessed valuation of the property with a possibility for reduction in tax charges which should also add to the income of the property.

R. E. Pendergast Now V-P. Of Paul & Co.

PHILADELPHIA, PA. — At a meeting of the Board of Directors of Paul & Co., Inc., 1420 Walnut Street, Ralph E. Pendergast was elected Vice-President of the firm. Arthur E. Pendergast resigned as vice-president of the organization effective Sept. 1.

St. Louis, San Francisco RR. Situation Interesting

An interesting report on the reorganization plan for St. Louis-San Francisco RR. 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.

Tomorrow's Markets Walter Whyte Says—

Market continues to disregard war news. Developments behind war front will play important part. Expect sharply lower prices before any rally.

By *WALTER WHYTE*

Now that Labor Day has come and gone, everybody is looking forward to more activity on the stock market front. For some reason Labor Day is always looked at as the Rubicon. Once it's crossed everything will start rolling again. It would be interesting to study past pre and post Labor Day markets to see how often activity actually picked up. But having other things to do I'll leave this research for others.

* * *

During the week just passed the war news again came to the fore. Italy proper was invaded by our forces; we began a major offensive in the Lae area against the Japs, and the Red Army is continuing its successful counter-offensive against the German forces. All of the foregoing is good news. In the ordinary course of events such news should be sufficient to set the market off on a whoopee that would have everybody interested in the price trend dance for joy. But the market in its own phlegmatic manner does not discount the same thing twice; particularly if this news has to do with the conduct of the war on the battlefield. Yet this quality of ignoring the war is not new to this market.

* * *

Ever since December 7th, 1941, the market has per-

(Continued on page 1008)

Post-War Rail Prospects

McLaughlin, Baird & Reuss, 1 Wall St., 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.

Colo.-Southern Looks Good

Colorado & Southern 4½s of 1980 have attractive possibilities according to a circular prepared by Hicks & Price, 231 South La Salle Street, Chicago, Ill., members of the New York and Chicago Stock Exchanges. Copies of this interesting circular may be obtained from Hicks & Price 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.

The Securities Salesman's Corner

How One Firm Is Solving The Manpower Problem

Several months ago the sales manager of a successful retail organization was faced with the necessity of replacing salesmen who had been inducted into the armed services.

This plan was adopted: The salesmen who were inducted were all informed that their jobs would be waiting for them when they returned. In addition, the accounts they were leaving behind would all be handled by the partners of the firm. Upon their return they could have them back. Meanwhile, a special commission account was opened for each salesman. Every transaction with those customers would be credited to them and payment of the commissions is made to their families, or held in trust for them, payable on demand as they might desire.

Their customers have all been notified of this arrangement, both by letter and through the personal visit of one of the partners. In some cases the salesmen themselves explained the situation to their customers. This firm has created a very favorable impression upon its customers, who have been exceedingly cooperative and enthusiastic over this generous and patriotic arrangement.

In addition, several new men were hired. They were selected with care and placed upon a straight salary arrangement for the frist six months. This period has been devoted to training and clientele BUILDING. Each new man was given two hundred new prospects. Pre-approach mailings were sent out at regular intervals. These men are encouraged to work according to a set plan, yet without pressure and with a free mind. Each man is expected to make his calls every day, and he is being trained as he goes along TO SORT OUT THE LIVE PROSPECTS AND ELIMINATE THE DEADWOOD. He discusses each day's interviews with his sales manager and together they analyze each call he has made. As unpromising prospects are uncovered they are replaced by new prospects, and the same procedure of calling, analyzing and eliminating continues until eventually each salesman will have about two hundred LIVE NEW PROSPECTS AND CUSTOMERS upon which he can concentrate.

The efficacy of this method of handling the manpower problem seems to be self evident. Here is a firm that is keeping nearly all the business that was left behind by the salesmen who have been called into the war effort. It is holding the good will of its clients. Meanwhile it is strengthening its sales organization and building up its business, so that the effects of lost manpower will not only be minimized at the present time, but in the post-war period it will be in a better position than ever to capitalize upon the opportunities which may then arise.

Now Lt.-Col. Brown

Major Harry E. Brown, formerly associated with Donohue & Sullivan, 75 Federal Street, Boston, Mass., has been promoted to the rank of Lieutenant-Colonel in the U. S. Army. Lt.-Col. Brown is stationed at Fort Strong, Boston Harbor.

Miller, Dodge To Admit

Miller, Dodge & Co., 25 Broad Street, New York City, members of the New York Stock Exchange, will admit John R. Meaney to partnership in their firm as of Sept. 9. Mr. Meaney will act as alternate on the floor of the Exchange for Robert S. Dodge.

Railroad Securities

CHICAGO & NORTH WESTERN

In a last minute attempt to upset the current ICC plan of reorganization for this road, stockholders are trying to force the appointment of a special three judge court to force the ICC to reopen the entire reorganization proceedings and rewrite another plan by taking cognizance of war swollen earnings. Such a plan in that event would obviously provide for some treatment for stockholders who were eliminated in their entirety in the current ICC plan. This attitude would appear to be somewhat non-realistic in the light of the March 15 decision of the Supreme Court which not only denied certiorari, thus in essence approving the plan as promulgated by the ICC but which also gave this latter body a virtual carte blanche in all matters pertaining to all reorganization plans and proceedings. In view of the above developments, recent attempts of the stockholders to upset the plan would appear to be but the dying gasp of an embittered disenfranchised group. The management is not taking these latest legal moves too seriously. In fact the plan is not likely to be delayed in any way since reorganization managers have been appointed and the preparation of the necessary indentures is proceeding according to plan. Additionally, the new securities will be printed in due course. These new securities should be available for distribution by February, 1944, although one trustee has publicly opined that the reorganization should be consummated by the year end.

The reorganization plan of the North Western, dated January 1, 1939, was most drastic indeed, fixed charges being reduced from $16.4 million to $2.7 million (increased to $4.2 million January 1, 1943, when first mortgage interest became 4% fixed). The plan also calls for a capital fund, originally $3 million annually for the first three years, and thereafter a sum equal to the smaller of the following amounts, $2.5 million or 2.5% of railway operating revenues. Additionally, the plan provides for $4.7 million income bond interest, $525,000 income bond sinking fund requirements, followed by 1,069,960 shares of $5 preferred stock and 1,077,997 shares of common.

A cursory glance at earnings during the depression thirties will disclose that they did not cover full interest requirements on the new securities, drastic as was the readjustment of the capital structure. In fact, average earnings for the years 1933-1939 (only $37,000 was earned in 1937 and an operating deficit of $126,000 shown in 1938) were but $3.7 million, insufficient to cover even first mortgage interest, let alone provide a residue for the other securities and the capital fund.

However, these past earnings are relatively meaningless. They ignore the normal sequence of earnings immediately preceding and during the period of receivership, and also fail to take cognizance of a probable change in administration policies whereby 30 to 40 million acres may be returned to cultivation, of major importance to an agricultural road like the North Western. These earnings also ignore the incidence of cash, importance of which will be emphasized subsequently. Parenthetically, because of the changed fundamental outlook for the road, we anticipate a post-war gross ranging, depending upon the particular stage of the business cycle, from $90 to $130 million and net available for charges of between $10 and $20 million.

The North Western has definitely benefited from the war, earnings experiencing a sharp increase, as will be noted:

	Net Available for Charges (000 Omitted)
1939	$5,722
1940	10,095
1941	16,793
1942	24,940

The above earnings do not include those of its subsidiary, the Omaha. Thus, far in 1943 the road has reported net operating income of $18,768 million for the first seven months as compared with $12,120 million for the corresponding period a year ago (Omaha $2.66 million versus $1.21 million for the same periods). For the full year 1943, despite rescission of the 1942 freight rate increase

(Continued on page 1008)

Chicago Brevities

Following a wave of new corporate financing activity that kept the local investment banking fraternity well occupied last week, Chicago financial men were all set at the start of this week to devote a major part of their time to making the third war loan drive of the Treasury Department a complete success. Much preliminary work already has been done in the direction of obtaining subscriptions to new Treasury securities, but efforts of financial men will be intensified with the formal opening of the campaign.

There is apparently nothing standing in the way of security dealers devoting their full energies to assure success of the war bond drive. For one thing, it is in the nature of policy for investment firms to make war financing their first order of business during money-raising campaigns of the Treasury Department. Moreover, all but one of the new corporate issues that became ready for public presentation cleared the market last week, and financing activity in the municipal field has dwindled to an exceptionally slow pace.

The only corporate flotation scheduled to be offered and which did not reach the market last week consisted of $15,000,000 of equipment trust certificates of the Illinois Central Railroad. This issue was scheduled for sale at competitive bidding on Aug. 30, but a single offer was entered, and it was rejected. There was a possibility at the week-end that this issue might be placed privately with an investment banking group prior to the official opening of the war bond drive. This view, however, was largely conjecture, based on negotiations understood to be underway.

Issues Total $61,500,000

Investment bankers opened the last week by bidding for five new issues totaling $61,500,000, including the Illinois Central flotation, within a two-day period. This was scheduled to be the largest amount of new corporate securities to enter the capital market within such a short period of time since the financing that preceded the second war loan drive in April. Failure of the I. C. to sell its issue, however, restricted the actual amount of financing that was completed.

The other four issues included $17,000,000 of 3¼% first mortgage bonds of **Iowa Power and Light Company**, $18,000,000 of first mortgage 30-year bonds of **West Texas Utilities Company**, $4,000,000 of 30-year first mortgage bonds and 35,000 shares of preferred stock of **Pennsylvania Electric Company**, and $4,000,000 of equipment trust certificates of the **Baltimore & Ohio Railroad.** All of these flotations were offered formally in the market during the week, and most of the securities have already been digested by investors.

Prior to the sale of these flotations, some local investment bankers were somewhat concerned over the fact that five financing operations were due to enter the market within such a short period and were inclined to question, to some degree, whether all these securities could be absorbed by investors prior to the opening of the war bond drive. The latter question arose because it was felt that investors generally already were eyeing their portfolios to consider how much of new government securities they could purchase. Talk thereupon was heard that some banking groups would be inclined to enter bids for the various issues that would assure attractive reoffering prices.

Sales Held in Chicago

Notwithstanding the latter view, the three bond issues were sold by the various utility companies at prices which were considered quite high. Moreover, a rather satisfactory investor response was shown in the reofferings.

Chicago was the scene of both the Iowa Power and Light and West Texas Utilities sales, and each attracted four bids. Bids on the Iowa Power flotation were opened by C. A. Leland, president of the company. The high offer of 107.56 was entered by a syndicate headed by Kidder Peabody & Co. and White, Weld & Co., which reoffered the securities at 108.50, to yield approximately 2.83%. Syndicates managed by Lehman Brothers, The First Boston Corporation, and Halsey, Stuart & Co., Inc., also were represented at the sale.

Sale of the West Texas issue was supervised by Purcell L. Smith, President of Middle West Corporation, of which West Texas is a subsidiary. The high offer of 101.605 for 3⅛% securities was named by a group headed by The First Boston Corporation and Harris, Hall & Co., Inc., which reoffered the issue at a price of 102.46, to yield 3.00%. Groups headed by Harriman, Ripley & Co., Inc., Kuhn, Loeb & Co., and Lehman Brothers, jointly, and Halsey, Stuart & Co., Inc., also submitted offers for this issue.

The Pennsylvania Electric securities were bid for actively, with eight groups represented at the sale. The bond issue went to Salomon Bros. & Hutzler, and the preferred stock to Smith, Barney & Co.

Halsey Buys B. & O. Issue

Halsey, Stuart & Co. headed the only syndicate which submitted offers for the **Baltimore & Ohio** and **Illinois Central** equipment

(Continued on page 1003)

Chicago Recommendations

Adams & Co., 231 South La Salle St., will send on request a recent circular on **National Terminal Corp. Common Stock.**

* * *

Brailsford & Co., 208 South La Salle St., have prepared an interesting pamphlet entitled **Chicago Traction Highlights.** This answers the question whether all the money reported in possession of the Chicago Surface Lines is in actual cash. This pamphlet shows the amount of cash on hand and where it is deposited. It is the company's own money and has no connection whatever with the so-called City Traction fund which is being used to build the subway. Copies of the pamphlet may be had upon request.

* * *

Cruttenden & Co., 209 South La Salle St., have prepared an analysis containing statistical memoranda on **Miller & Hart, Inc.,** copies of which may be had upon request.

* * *

Enyart, Van Camp & Co., 100 West Monroe St., will furnish late information and quotations on **Chicago and Suburban Bank Stocks.**

* * *

Faroll Brothers, 208 South La Salle St., have prepared a recent analysis on **Standard Silica**, which is available on request. This is an Illinois corporation and is personal property tax-exempt in this State.

* * *

William A. Fuller & Co., 209 South La Salle St., now have available six months' comparative figures on **Durez Plastics & Chemicals, Inc., Common Stock.** Copies may be had upon request.

* * *

Hicks & Price, 231 South La Salle St., have prepared a comprehensive up-to-date brochure on **Colorado & Southern 4½s of 1980.** This illustrated booklet may be had upon request.

* * *

Leason & Co., 39 South La Salle St., have prepared an illustrated brochure covering **The Chicago Rapid Transit Co.**, which will be supplied on request. Chicago Rapid Transit Co. reports a sharp increase in revenue passengers of 14,067,055 in August, an increase of 9.7% over the 12,817,573 carried in August, 1942. For the eight months of this year 114,975,562 passengers were carried, compared with 107,716,542 in the corresponding 1942 period, an increase of 6.74%.

* * *

E. H. Rollins & Sons, Inc., 135 South La Salle St., have prepared an interesting memorandum explaining and amplifying the trustees' application for reorganization and recapitalization of the **Ohmer Fare Register Co.**, especially as it pertains to the arbitrage and speculative features of the Ohmer Fare Register 7-38. Copies may be had upon request.

* * *

Straus Securities Co., 135 South La Salle St., have compiled late analyses on **Steel Products Engineering, United Stock Yards** and **Marmon, Herrington Co.** Copies available on request.

* * *

Thomson & McKinnon's Stock and Bond Reviews this week place emphasis on relative values rather than near-term price fluctuations. They continue to maintain the view that the long-term trend of equity prices is upward.

Their current **Bond Review** has a special article on **Armour and the Meat Packers,** and their weekly **Stock Review** an analysis of the **Outlook for Gold Stocks,** both of which are very timely.

Any one interested may secure a copy of either or both of these reviews, free of charge, by addressing **Thomson & McKinnon Statistical Library,** 231 So. La Salle St., Chicago.

To Represent Bondholders Of Ga. Central Divisions

William A. Spanier of A. A. Bennett & Co., Chicago, Addison Warner, Addison Warner & Co., Chicago, and W. F. Wagner, New York City, have formed a Bondholders' Committee, to represent holders of bonds of the Macon & Northern, Mobile, and Middle Georgia Atlantic Division of the Central of Georgia Railway. In addition to representing holders in Savannah, the Committee is also going to submit a Plan of Reorganization. Any dealers who have distributed these bonds are requested by the Committee to join them—without charge or any obligation whatsoever. Headquarters of the Committee are at 105 South La Salle Street, Chicago, Suite 506.

Robt. J. Rosenberg With H. Hentz & Co.

CHICAGO, ILL. — Robert J. Rosenberg has re-entered the brokerage business and has become associated with H. Hentz & Co., 120 South La Salle Street. Mr. Rosenberg in the past was connected with A. R. Frank Co., predecessors of H. Hentz & Co.

North American Co. Situation Of Interest

North American Company offers interesting possibilities at the present time according to a special study prepared by the Investment Research Department of Thomson & McKinnon, 231 South La Salle Street, Chicago, Ill., members of the New York Stock Exchange and other principal exchanges. Copies of this study may be had from Thomson & McKinnon upon request.

Railroad Securities In The Post-War Era

Pflugfelder, Bampton & Rust, 61 Broadway, New York City, members of the New York Stock Exchange and specialists in railroad reorganization securities, have published "Railroad Securities in the Post-War Era," which represents the views of Patrick B. McGinnis as expressed at the corporate meeting of the National Security Traders Association, Inc., held in Chicago on Aug. 20.

Ranson-Davidson Co. Opens Chicago Office

CHICAGO, Ill.—The Ranson-Davidson Co., Inc. of Wichita, Kansas has opened a new branch office in Chicago at 135 South La Salle Street. Associated with the firm in the Chicago branch will be Robert L. Creek, formerly a partner in C. W. McNear & Co. Mr. Creek's connection with Ranson-Davidson Co. was previously reported in the Financial Chronicle of September 2nd.

Chicago, Rock Island Situation Analyzed

Leroy A. Strasburger & Co., One Wall Street, New York City, have issued an interesting letter analyzing their idea of the value of the Chicago Rock Island & Pacific new securities, when issued. Copies of this letter are available, to dealers only, upon request.

J. V. Sullivan With Eastman, Dillon & Co.

(Special to The Financial Chronicle)

CHICAGO, Ill.—James V. Sullivan has become associated with Eastman, Dillon & Co., 135 South La Salle Street. Mr. Sullivan was formerly with Paul H. Davis & Co. for a number of years and prior thereto was manager of the investment securities department for F. S. Lewis & Co.

E. B. Hall To Aid War Loan Drive

Appointment of Edward B. Hall, President of Harris, Hall & Co., Chicago investment bankers, as Assistant to Secretary of the Treasury Morgenthau was announced on Sept. 3.

Mr. Hall will be associated with Ted R. Gamble, national director of the Third War Loan Drive, and will direct war financing through banks and investment companies.

New Frontiers Of Business Development Seen By Schram

(Continued from first page)

this system as one of the basic free institutions we are defending." Mr. Schram continued:

"I might observe that one of the reasons our economic system has performed so competently in this emergency is because men have an incentive and understand exactly what that incentive is. But it is necessary to keep in mind that the great patriotic urge, which is the incentive behind our amazing effort today, must eventually be replaced by the normal incentive to earn a profit and a wage. If the incentive of unlimited accomplishment is permitted to operate, it will perform miracles as great in peace as in war. But this system cannot function to our satisfaction if government is hostile to it, or if there is mutual distrust, or if business is harassed and restricted, or if its detractors in government continually seek opportunities to attack and discredit business.

"Now I am going to advance the simple proposition that the solution of most of our post-war problems, including, of course, the carrying of the national debt, will not be too difficult if we will but surround our competitive enterprise economy with a friendly, favorable atmosphere, if we will give it the freedom it needs and if we will fix upon an unequivocal national policy which recognizes freedom of opportunity as the keystone and basis of our way of life.

"Before I attempt to outline what I think are the principal specifications for such a policy, suppose we examine briefly our major objectives, even at the risk of over-simplification:

"(1) The production of goods and services at a level sufficiently high to occupy all who wish to work and are able to do so.

"(2) A national income adequate to purchase such products and to service and amortize our national debt.

"Responsibility for the attainment of these objectives rests upon government, management, labor, capital and agriculture; in fact upon all the various constituents of our economy. But it is the responsibility, first, of government, representing all the people, to formulate the policy, to lay down the rules, under which our national economy can function best. The initiative necessarily rests with government, that is, with Congress and with our policymakers, through whom the national will finds expression.

"If you will bear with me briefly, I am going to sugggest certain measures and considerations which, in my judgment, are essential to an orderly conversion from war to a sound, prosperous peace economy."

Mr. Schram stated that, "first and foremost, the Government should accept and apply as a guiding principle the fact that ours is still an expanding, a dynamic economy, not a static and mature one." He added:

"In the post-war period our Government, if it is to live up to its responsibilities, must nourish the profit motive, not merely tolerate it. Those of our political leaders who have long sought to discredit the profit incentive as an instrument of human progress overlook the fact that it is an elemental instinct of American life.

"The time is at hand when our Federal tax structure should be redesigned. This is imperative not only because of the necessity of raising a great amount of additional revenue, but also as essential preparation for the transition from peace to war.

"The new tax laws should be drafted with a full recognition of the urgent necessity of building reserves adequate for financing not only the change-over to peacetime production but, also, for the enormous expansion which will be required to satisfy the post-war requirements of our people.

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Chicago Brevities

(Continued from page 1002)

trust flotations. The account purchased the B. & O. issue, which bears interest at 3%, at a price of 100.057, and was able to place 60% of the issue the first day of the reoffering. The rejected bid for the I. C. flotation was at a price of 98.0517 for a 2½% interest rate, the equivalent of a net annual average interest cost to the road of about 2.99%. The road regarded the bid as unsatisfactory and felt it should have obtained a higher price.

The fact that the B. & O. obtained only a single bid for its issue was regarded as the result of the unusual nature of its financing. The issue is for the purpose of financing 100% of the costs of acquiring new equipment and is part of a total authorized flotation of $10,760,000. Earlier this year the road sold $3,500,000 of total issue, also to Halsey, Stuart & Co., which came as the first equipment flotation of all time to be issued to finance 100% of the cost of new rolling stock and which was placed directly with investment bankers. Usually railroad equipment flotations are issued to finance anywhere from 75 to 90% of rolling stock acquisition costs.

A number of reasons were assigned by investment bankers for the fact that only a single bid was entered for the I. C. certificates. These included the imminence of the War Loan drive, which found investors primarily interested in new Treasury securities, the fact that a number of financing operations were undertaken during the week, and the unusual nature of the road's operation.

I. C. Financing Unusual

The contemplated equipment trust of the road is unusual in that it would be secured by equipment already in operation, rather than by new equipment. The Illinois Central planned to use the proceeds of the sale to pay off the remaining $15,000,000 of indebtedness to the Reconstruction Finance Corp., which totaled roundly $37,000,000 last December.

While activity in the capital market will dry up for the duration of the War Loan drive, investment bankers here are of the opinion that a revival of activity will result in the corporate market after completion of the campaign. Already in registration with the Securities & Exchange Commission are such issues as $37,000,000 of first mortgage bonds of **Utah Power & Light Co.**, $16,000,000 of first mortgage bonds and 40,000 shares of preferred stock of **California Electric Power Company**, and $7,500,000 of first mortgage bonds and 20,000 shares of preferred stock of **Atlanta Gas Light Co.**

In addition, other programs are being made ready for registration, such as a $25,000,000 refunding by **P. Lorillard Company**, which will embrace $20,000,000 of debentures and $5,000,000 of common stock. A number of utility companies also have financing plans under consideration.

BOARD DEFAULTS AGAIN

The Chicago Board of Education defaulted on one-eleventh of the coupon due Sept. 1 on its outstanding issue of $5,500,000 of refunding 4¾% bonds, dated Sept. 1, 1934, and due Sept. 1, 1954. Of the $23.75 coupon due on each $1,000 bond, the board paid $21.59 and passed payment on $2.16.

This partial default is the result of a decision handed down last July by Judge Edmund K. Jarecki of the Cook County Court, who held, in effect, that one-eleventh of the issue was invalid. Previously, the board defaulted on the entire coupon due Aug. 1 on its outstanding issue of $900,000 of 4¾% bonds, dated Feb. 1, 1935, and due Feb. 1, 1955. This default also arose from Judge Jarecki's decision.

One-eleventh of the $5,500,000 issue and the entire $900,000 flotation were sold to refund bonds which originally had been issued in 1931 to pay off 1928 and 1929 tax anticipation warrants of the board. In his decision, Judge Jarecki held that tax warrants could be redeemed only from the proceeds of taxes levied for the years for which the warrants were issued. His decision followed the principle handed down by the Illinois Supreme Court in 1935, in which it was ruled that bonds could not be issued to pay tax anticipation warrants.

The Board of Education plans to appeal Judge Jarecki's decision to the State Supreme Court.

W. Helm To Speak

CHICAGO, ILL.—Wilbur Helm of the Central Republic Company, will be speaker at the Credit Women's Club of Chicago at their dinner meeting to be held Sept. 14 at 6:15 p.m. at 185 North Wabash.

Wisconsin Brevities

Central Electric & Telephone Company reports net income of $460,550 for the 12 months ended June 30, 1943, compared with $352,956 in the similar 12-month period of 1942. This is equivalent to $7 a share on the $50 par $3 preferred stock, against $5.30 a share for the 1942 period. On a consolidated basis Central Electric reports $520,592 for the year ended June 30—equal to $7.90 a share, compared with $369,075—equal to $5.60 a share. Common stock earnings on a consolidated basis were equivalent to 44¢ a share for the year ended June 30, 1943, compared with 23¢ a share the year before.

Directors of the **Le Roi Company**, Milwaukee, have declared a dividend of 40¢ a share, payable Sept. 25 to stock of record Sept. 11. This will bring total payments for the current fiscal year ended Sept. 30 to $1 a share. A similar amount was paid in the preceding fiscal year.

Other Wisconsin dividend declarations include:

Safeway Steel Products, Inc.—10¢ a share, payable Sept. 7 to stock of record Aug. 25, bringing total disbursements for the year thus far to 30¢.

Globe Steel Tubes Company—25¢ a share, payable Sept. 15 to stock of record Sept. 2.

Harnischfeger Corporation—15¢ a share on the common stock, payable Sept. 25 to stock of record Sept. 15.

Hein-Werner Motor Parts Company—20¢ a share, payable Sept. 15 to stock of record Sept. 1.

Wakesha Motors Company—Quarterly dividend of 25¢ a share, payable Oct. 1 to stock of record Sept. 15.

Modine Manufacturing Company—30¢ a share, payable Sept. 20 to stock of record Sep. 10.

Twin Disc Clutch Company reports net income equivalent to $13.15 for the fiscal year ended June 30, compared with $11.18 a share in the preceding fiscal year. The 1943 earnings are after a $280,000 reserve for contingencies.

President Denies Lend-Lease To Be Repaid In Victory, Peace Only

President Roosevelt on Sept. 7 repudiated two sentences contained in his letter to Congress Aug. 25 transmitting the eleventh lend-lease report.

The sentences read as follows:

"The Congress in passing and extending the Lend-Lease Act made it plain that the United States wants no new war debts to jeopardize the coming peace. Victory and a secure peace are the only coin in which we can be repaid."

The President told his press conference that, although the letter was attributed to him, he had not seen these sentences and apologized for the mistake. A corrected copy without the sentences in question, he added, will go to Congress.

As to Mr. Roosevelt's comment on these sentences, Washington advices of Sept. 7 to the New York "Times" stated:

"There was truth in those words, the President said, but it was a condensation of the truth which might lead to misunderstanding. It was only about a quarter of the truth.

"It said no debt, but what is debt? the President asked. Is it to be paid in money or goods? As stated in the letter, he added, it did not do the situation justice.

"It was perfectly true in a narrow, technical sense, that we wanted no debt, the President said. But it was his thought and that of most of the other countries that they would repay so far as they possibly could, he asserted. This did not necessarily mean in dollars, the President said.

"Since a great many people in this country thought of coin as something that jingled in the pocket, he would not have worded the second sentence the way in which it had been, he declared. There were all kinds of coin, he added, whether or not they jingled."

In the same account President Roosevelt was reported as saying that while the United States did not necessarily expect repayment of lend-lease advances in dollars, it was his thought and that of most of the other countries that they would repay all that they possibly could.

The text of the letter referred to above appeared in these columns Sept. 2, page 927.

SEC Death Sentence Activities In Wartime Threaten Private Enterprise

(Continued from first page)

1938. During the next two years, moreover, the SEC appeared content to feel its way along and, through discussions with holding companies, define those zones of enforcement in which conflict was likely to develop. As a result, enforcement of the integration provisions of the Act did not actually get under way until the spring of 1940. But since that time, which coincides roughly with the start of national defense preparations, the Commission has been pressing for a "rapid compliance" with the "death sentence."

Its major reasons for trying to compel the dissolution of holding companies in the midst of a national emergency appear to be three in number. First, the SEC contends that the removal of financial obstacles, resulting from the need by holding companies of income to support top-heavy capital structures, is a necessary step in the direction of expansion of power supply to meet war-stimulated demands. Second, it argues that because distributable income of operating subsidiaries in holding company systems will tend to decline in the face of rising operating costs and taxes, many holding companies will be vulnerable to defaults in interest payments, and faced with an inability to pay preferred dividends in full. And, third, it insists that holding company financial structures must be strengthened to withstand the impact of probable post-war adjustments.

None of these contentions appears persuasive. As those familiar with utility operations recognize, there is no relation between the ability of an operating electric or gas utility to meet the demands for service made upon it and the ratios of debt securities, preferred stock, common stock, and surplus to its total capitalization. Just so long as an operating utility is able, through the sale of any form of security, to engage the capital required to expand its facilities, the demands of its consumers can be met. Moreover, the current that comes off the end of a power line has just as much "zip" to it, and the gas that comes from the end of a pipe burns just as hot, regardless of whether the funds used to construct production facilities were borrowed from banks, or were obtained through the sale of bonds, notes, preferred stock or common shares.

It is not intended to imply that a preponderance of debt securities in any capital structure is desirable. Interest charges exert a contractual claim upon revenues, and the penalty for non-payment is foreclosure and bankruptcy. Furthermore, a high proportion of debt in the capital structure of any form of enterprise carries with it the germ of disaster in lean years to come. And, for that matter, neither is the piling of deficit upon deficit by a national government desirable. But when the need of funds by either a private enterprise or a government is great, as in the thick of a global war, that need vastly outweighs any thought of niceties in financing methods. These are luxuries for peace-time enjoyment.

Actually, there has been no shortage of electric energy, or of manufactured or natural gas, in the United States during the present emergency. The electric demands of the Nation's industries now are more than double those of 4 years ago, while total electric consumption is running some 70% higher. Likewise, the present industrial demand for manufactured and natural gas, combined, is nearly 75% above that of September 1939, while total use of gas is approximately half again higher. Yet every demand for these services has been met in full.

The SEC's second argument that the ability of holding companies to meet interest and preferred dividend requirements is endangered by declining earnings of operating subsidiaries likewise fails to hold water. Although operating costs have increased moderately under the impact of war, and taxes assessed by the Federal Government have expanded sharply, it is not true that operating subsidiary earnings have declined to the extent the SEC envisions. In fact, they are currently increasing.

According to a tabulation made by Edison Electric Institute, which utilized reports submitted to the Federal Power Commission, the gross corporate income of the privately owned electric utilities of the country, available for interest and dividend payments, was 4.3% higher in the first 6 months of 1943 than in the corresponding period of the preceding year. This increase, however, is based on taxes actually accrued. But even if the rates prescribed by the 1942 Revenue Act, which was not adopted until the fall of that year, had been in effect during the first 6 months of 1942, gross corporate income for the 1943 half-year still would be 1.7% higher.

The third contention of the SEC that it must now put holding company financial structures in shape to withstand the shock of post-war adjustments appears of doubtful validity. While the objective, as stated, sounds reasonable, it has but limited application as a practical matter. And it certainly does not call for an inflexible blanket policy. Many of our holding companies unquestionably are in sufficiently sound financial shape to survive any post-war uncertainties, and to render whatever financial and other assistance their operating subsidiaries may require, just as they are assisting them now and have assisted them in pre-war days. And having lived with these subsidiaries throughout the years, they probably know their vulnerable spots much better than a governmental agency, whose acquaintance with them is wholly statistical.

Undoubtedly, certain of the weaker holding companies could be helped by changes in their capital structures, but it is hard to see why it is necessary to kill the patient in order to cure him. The process of liquidating a sizable holding company is not an easy one at best. Conflicting rights and interests call for an unhurried consideration not only of existing factors, but of prospective developments, and the confusion and haste of wartime do not lend themselves to a calm and judicial approach. A man does not try to disentangle a fishing line while fighting his way through the waves.

But if the reasons advanced by the SEC to justify the dissolution of utility holding companies in the midst of our country's fight for survival are lacking in merit, one effect of this course of action appears certain. Speaking before the Harvard Business School Alumni Association in June 1939, Judge Robert E. Healy, a member of the Securities and Exchange Commission, said:

". . . The Holding Company Act does not mean a death sentence for the utility industry or for the utility holding company. . . . It does not mean the nationalization of the utility industry. Whether you would oppose nationalization of electric power or whether you would favor it, you will not find it in the Holding Company Act, or in its administration."

Unfortunately, this is a situation in which actions speak louder than words, as many owners of utility holding company securities can testify.

On the whole, the American people have shown an unwillingness to engage in the supplying of their own electricity, believing apparently that lower complete costs and better service result when electric utilities are privately owned and are under business, rather than political, management. Nevertheless, numerous communities have experimented in the past with their own electric systems. Between 1882 and 1932, inclusive, 3,904 of them, at one time or another, owned their electric supply systems. But by the close of this period, more than half of them—actually 2,055—had quit the electric utility business, and had turned their electric supply problems over to privately owned systems.

Early in 1933, however, the depression-born PWA began giving 45% of the cost to communities building their own electric systems, and loaned them the balance at very low rates. Furthermore, Federal power projects like TVA and Bonneville Dam began making electricity available to publicly owned systems at subsidized rates, which were well under the actual cost of power. As might be expected, this combination of Federal generosities gave a sharp impetus to municipal ownership of electric utilities.

From 1933 through 1942, a total of 1,039 elections were held on proposals for municipal ownership. In the first 3 years of the decade, an average of 109 elections were held annually, at which 62% of the vote favored the proposal. In the next 4 years, the annual average was 131 elections, at which 44% of the voters favored municipal ownership. And in the last 3 years, the annual average was 61 elections, at which only 34% of the vote was favorable to the proposition. Furthermore, around three-quarters of all communities accepting municipal ownership in the decade were located within transmission distance of Federal power projects, from which power could be bought at below cost, and about the same proportion of communities favoring municipal ownership did so during the earlier years of the decade, when PWA was giving them nearly half the cost of their systems.

This experience of the past decade seemingly would suggest that American communities, like the individuals composing them, cannot resist a bargain, and that, again like their components, they rather enjoy passing the tax buck to the other fellow. At any rate, this combination of traits, plus the SEC's enforcement of the "death sentence" against holding companies during a period of abnormally high taxes, is encouraging municipal ownership of electric and, to some extent, of gas utilities today. A few instances will serve to indicate the trend.

For more than 45 years, Key West, Florida, was served with electricity by the Key West Electric Company, an operating subsidiary of Engineers Public Service Company. During the 12 months ended June 30, 1943, it had operating revenues of $382,461, against which it incurred operating and depreciation costs of $117,976. In addition, its Federal, State and local tax bills totaled $119,306, which left the company with a gross income of $85,179 with which to pay interest on its bonds and dividends on its preferred and common stocks.

But the SEC required Engineers Public Service to dispose of Key West Electric, along with other subsidiaries, in the "death sentence" proceedings instituted against it. Private buyers, unfortunately, were limited in the price they could pay, because they would have to meet all the taxes paid by the Key West company. But if the City of Key West bought it, no Federal taxes would be levied on its profits, and it could escape most of the State and local taxes paid by the private company. So the City sold $1,500,000 of revenue bonds, paid $1,293,000 for the private company, paid all expenses incurred in the deal, and had $83,000 left for working capital and extensions to the property.

Thanks to the SEC for making the private utility available for purchase, and to Federal taxpayers throughout the country for shouldering an added burden, Key West has made a good buy. Where the private company had to pay $77,343 in Federal income and excess profits taxes in the June 1943 year, the City will not pay the Federal Government a dime. And where the private utility had to pay $41,963 in State and local taxes, the City will have to pay only the State gross receipts tax. To be sure, it proposes to charge its own electric plant with a sum equivalent to the taxes it used to receive from the private company, but this means merely moving money from one pocket to another. And since the sum of the State gross receipts tax and the payment it will make to itself in lieu of taxes is estimated at $14,100, the City will "save" $27,863 annually in State and local taxes, largely at the expense of other taxpayers in the State.

Add this $27,863 to the $77,343 in Federal taxes which the City can "save" by making no contribution to the support of the Federal Government, and you find that the City can escape $105,206 in Federal, State and local taxes, which a private utility would have to pay as one of its costs of doing business. And thus the profit to the City will run around $190,000 a year, more than two-fifths of which will come out of the hide of Federal taxpayers in all sections of the land.

Another case in point is the purchase of the electric and gas facilities of San Antonio Public Service Company, about a year ago, by the City of San Antonio and 3 nearby communities. San Antonio Public Service was an operating subsidiary of American Light & Traction Company, which was a subsidiary holding company in the United Light & Power system. And since it could not be retained by American Light & Traction under the SEC's dissolution plan for United Light, it was available for purchase by its served communities. In addition to electric and gas service, the company operated a bus transportation system in San Antonio, but since the bus system was sold to private parties, it did not enter into this transaction.

During the 12 months ended May 31, 1942, San Antonio Public Service received electric and gas operating revenues, plus a small amount of non-operating income, totaling $8,735,657, against which it had operation, maintenance and depreciation expenses amounting to $5,184,100. In addition, it had to pay $1,071,929 in Federal taxes and $776,900 in State and local taxes, which left it a gross income of $1,702,728 with which to pay interest and dividends. Had Federal taxes been levied during this period at rates prescribed by the 1942 Revenue Act, this gross income would have been reduced by an estimated $300,000.

Primarily because the communities buying the electric and gas facilities of San Antonio Public Service can "save" the Federal tax of $1,071,929, and about half the State and local taxes of $776,900, which the private company had to pay, they will have a gross income practically double that of the private utility, with which to pay interest on their bonds, and to retire them. So here, again, the SEC's administration of the Holding Company Act has contributed to "nationalization of the utility industry."

But communities are not the only potential buyers who can benefit from private utilities being forced on the market during a period of high war taxes by SEC "death sentences." Since rural electrification cooperatives, which are financed 100% through loans of public funds by the Rural Electrification Administration, pay no Federal taxes in any State, and State and local taxes in comparatively few, they too have bought operating subsidiaries of holding companies, which have been forced on the market by SEC "death sentence" orders.

Missouri Electric Power Company, an operating utility rendering electric service, along with some incidental water and ice service, in 40 communities and surrounding areas in southern and southeastern Missouri, is a subsidiary of Central States Power & Light Corporation. And Central States, in turn, is owned by Central States Utilities Corporation, which is a subsidiary holding company of Ogden Corporation. Under the terms of the "death sentence" imposed upon Ogden Corporation by the SEC, it is required to dispose of Missouri Electric Power, along with other subsidiaries. Several privately owned utilities operating in the same general territory were interested in buying parts of the property, while other private interests attempted to buy it in its entirety.

But the Sho-Me Power Cooperative, an REA-financed rural electrification project, also wanted it, and agreed to pay $2,500,000, which is reputed to be from $50,000 to $125,000 more than private interests had bid. The transaction received SEC approval on Dec. 1, 1942, but the Missouri Public Service Commission so far has failed to okay the deal, and it has not been consummated.

Then, too, the bankrupt Associated Gas & Electric Company, among its far-flung holdings, owned three small utilities in Ohio, which operated in all or parts of 12 counties. These were (1) General Utilities Company with 3,522 electric consumers in and around Grelton and Malinta; (2) Western Reserve Power & Light Company with 2,591 electric consumers in and around Burbank, Lodi, Nova, Spencer and West Salem; and (3) New London Power Company with 800 electric consumers in and around New London. Since the SEC would not permit Associated Gas & Electric to retain these companies, they were sold to REA-financed rural cooperatives for an aggregate of $1,100,000.

In each of the four instances cited, where holding company subsidiaries have been acquired by municipalities or farmers' cooperatives, one of the major inducements held out to voters and cooperative members to secure their approval was the ability to escape the full amount of Federal taxes, and a goodly share of the State and local taxes, paid by the previous private owners. There is, moreover, good reason to believe that if these utilities had been taxable in the hands of communities and cooperatives by the same authorities, and at the same rates, as the private companies, their purchases never would have been attempted.

Nothing in the Holding Company Act, not even in Section 1 thereof which recites evils of the past and points the necessity for control of holding companies, would indicate that one of its objectives is nationalization of the electric and gas utility industries. Nor is such an objective even remotely suggested by the Act's legislative history. Only in the manner in which the SEC administers it, only by enforcement of the "death sentence" provisions in the midst of a war emergency, is any aid lent to the nationalization of these industries.

It would appear, then, that since it was not the intent of Congress to adopt legislation which circumstances could twist into a device for converting privately owned electric and gas utilities into publicly owned enterprises, Congress would be justified now in ensuring against further perversion of its intent. This could best and most easily be accomplished by deferring SEC dissolution activities for the duration.

A. H. Gordon Elected Tubize Chatillon Director

Albert H. Gordon of Kidder, Peabody & Co., New York City, has been elected a director of Tubize Chatillon Corporation to succeed Col. W. P. Barba, resigned.

Investment Trusts

AFTER LABOR DAY

This is the time of the year which traditionally marks a quickening of the financial pulse of the country. Whether the trend is up or down, the market usually becomes more active after Labor Day. This year such a development will be no less welcome than in the past. August has been a slow month—particularly slow for brokers and dealers. **Firms whose business has held up best are, by and large, those who deal extensively in investment company shares.**

And speaking of the trend of the market, we have some encouraging news to report. The opinion of our friend with the "Stock Price Trend Indicator" that the recent shake-out would prove to be of a short-term character continues to be confirmed by his own index. The longer-term index has remained bullish throughout the decline.

More important for the immediate future, the short-term index gave a "Buy" signal on Tuesday, Aug. 31. As previously reported in this column, the short-term index has been in a bearish position since July 20. Now both indexes are in gear again and the indicated trend is up.

(For readers interested in previous reports on our "Stock Price Trend Indicator," a list of **all references** made to it in this column follows: May 28, 1942; July 9, 1942; Dec. 31, 1942; March 11, 1943; April 1, 1943; June 24, 1943; Aug. 12, 1943.)

Returning to the subject of business volume in the various segments of the financial community, it is a fact that the sale of investment company shares held up far better in August than the amount of business transacted on the leading exchanges or in the principal over-the-counter markets. Since the investment companies are generally following a policy of keeping fully invested at this time, it is obvious that an increasing portion of the total listed business in securities originated with them last month.

In our opinion, both of these developments are sound. We believe, moreover, that they represent a trend which will be accentuated in the years ahead. Brokers have always done their biggest business at the top of the market. The investment companies are learning how to do business when prices are low.

Investment dealers, too, are learning that they can do good business in investing company shares when they can't sell anything else. Many of them have already learned that by concentrating on investment company shares they can avoid most of the headaches which accompany the underwriting and over-the-counter business.

This writer knows personally a number of high-grade investment dealers who only five years ago wouldn't even consider handling investment company shares. Today all of these dealers are selling "mutual funds" and over half of them are selling nothing else.

Investment dealers are human—they like to make money and they like satisfied customers. They like the excellent sales helps and the continuing investment information available free through leading mutual fund sponsors. They like to sell securities without feeling that they are sticking their necks out a mile every time they close a deal.

The day of the telephone "order taker" with the confidential voice may come again. But we hope not. When people get that crazy, panics, depressions, new deals, dictators and world wars are not far off. Selling mutual fund shares is work; it requires the "educational service" that goes with all good selling. **But it's sound business today. In fact, it's the one dynamic segment of the whole financial field.** More and more investment dealers are finding that out.

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.

Canadian Securities

By BRUCE WILLIAMS

The latest contribution to post-war planning is a proposal entitled "The Mid-Continent and Peace," issued by a joint economic group of Minnesota and Manitoba. It is interesting not only for its importance as another indication of the growing collaboration between this country and Canada in disregard of the international border, but also in view of the original sponsorship of this far-sighted scheme.

Two years ago former Gov. Harold E. Stassen of Minnesota agreed with the then Premier of Manitoba, John Bracken, to set up committees to study the economic problems of the mid-continental area. Mr. Bracken is now the leader of a new political group, the Federal Progressive - Conservative Party, and recent trends in the political field north of the border have placed him in the forefront as an ultimate contender for the Premiership of Canada.

With such leadership on both sides of the border, it would be certain that the problems of the post-war world would be dealt with in a practical commonsense manner with a minimum of politics and an honest endeavor in friendly cooperation to further the interests of both countries.

Turning from the consideration of the future to a review of the market for the past week, it can be said that the possible reaction suggested in previous columns definitely materialized. Dominion direct and guaranteed issues were in general quoted a good point below their recently established highs. The longer term British Columbias were offered at a yield of 3.35% after being 3.30% bid, New Brunswicks at a return of 3.65% after 3.60% bid, and Manitoba 4½'s of 1956 were obtainable at 105½ as against their recent high level of 107 bid.

On the other hand, Ontario issues of 1950/60 continued at their peak level owing to persistent demand from one source and scarcity of supply. Although inactive, the prices of Quebec issues also were unchanged; the switch recently suggested from Quebecs into British Columbias or New Brunswicks still appears attractive as on the longer terms an increase in yield of about ½% and ¾%, respectively, can still be obtained.

Saskatchewans were still in some supply and the 4½'s of 1960 were finally offered at 91. There was increased interest in Albertas which recovered still further after their recent recession and the 5's were quoted 76½/77½. Canadian Pacifics showed little change with the 5's of 1954 offered at 104¾ and the 4½'s of 1960 at 100¼. In view of the steady retirement of outstanding obligations, investors would do well to consider the purchase of the perpetual 4's which are obtainable at 86.

Internal issues were a little easier in view of an increased supply of free exchange resulting from dividend disbursements. Next month also the free rate will be further influenced by called and maturing Canadian issues held in this country. This should provide an opportunity to obtain internals at attractive levels and relieve momentarily the pressure on the exchange.

It must be borne in mind, however, that the demand for Canadian dollars arising out of our activities in connection with the Alaska Military Highway is constantly increasing and this factor might offset those previously mentioned; in other words, the supply might be quickly absorbed. Canadian gold shares, especially the lower priced variety, found increasing interest here and this section was exceptionally active.

The reaction that has occurred in the market generally might very well continue at least until the end of the drive in connection with our Third War Loan, and as is usual after a recession from a peak level, potential sellers are more anxious to operate than the buyers. In the absence therefore of an unexpected development, it is possible that the decline might proceed a little further, especially in view of the Canadian drive in October. However, it is confidently expected that both loans will be tremendous successes and all markets will be consequently stimulated. At this time, special attention might be given to the lower priced issues.

Interesting RR. Situations

The Sept. 1st issue of "Railroad Securities Quotations," issued by B. W. Pizzini & Co., 55 Broadway, New York City, contains a discussion of five rail situations which the firm feels offer interesting possibilities at the present time. Copies may be obtained from the firm upon request. Also contained in the publication are quotations on guaranteed rail stocks, underlying mortgage railroad bonds, reorganization railroad bonds, minority stocks, and guaranteed telegraph stocks.

Cgo. Tractions Interesting

The current situation in Chicago Traction securities offers interesting possibilities according to a comprehensive circular prepared by Brailsford & Co., 208 South La Salle Street, Chicago, Ill., members of the Chicago Stock Exchange. Copies of this circular may be obtained from the firm upon request.

Post-War Inflation—What To Prepare For

(Continued from first page)

of business being done." However, in the light of his further explanation, it does not appear inconsistent with Kemmerer's definition to describe inflation as the product of a carrier wave of monetary expansion modulated by group psychology.

Slow Inflation Is Good Medicine

Monetary expansion may generate slow, long continued rise of prices. Carl Snyder has assembled evidence that the greatest known rise went on throughout the Sixteenth Century and was caused by the importation into Europe of vast stores of silver and gold from Mexico and South America. This appears to have been a well sustained upward climb checked at intervals by relatively slight deflations. It was a century of remarkable activity and growth.

One important inference from this long period and several shorter periods of rising prices is that **a fairly steady and moderate inflation**, far from being objectionable, gives powerful support to productive enterprise. It holds down wages and scales down debts, but works so quietly that it does not create social or financial disturbances. The real troublemaker is not inflation in itself but **rapidity** of price movements, either up or down, upsetting established habits and relationships.

"Money" and "Near-Money"

At one stage of civilized life "money" meant only gold and silver coins. The conception has since been broadened, stage by stage, to include: paper currency redeemable in gold or silver; irredeemable currency; notes and drafts of banks or governmental bodies which circulate freely; bank deposits or credits payable on demand; and, as a rule, time or savings deposits on the ground that they are easily checked out or convertible into demand deposits. All these media are "money" in customary present-day usage; and an increase in their aggregate total is true "monetary expansion."

Just over the edge are important amounts of "near-money." Government bonds in the smaller denominations passed from hand to hand quite freely after World War I and will probably be used in this way even more commonly during and after the present war. Other government bonds, particularly those purchased by individuals under pressure, will be easily turned into cash; they are liquid to a much higher degree than are most securities. By war's end this reservoir of "near-money" will be enormous and will be a powerful inflationary force.

It Is All "Fiat Money"

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.

The virtual elimination of gold as an automatic governor of the outflow of fresh money (in the broad sense in which we are using that word) will create a **post-war situation for which we have no peacetime precedent in this country**—at any rate, none later than the Jacksonian era of unrestrained wildcat currency.

Conceivably, gold may be eventually restored to its former place. Alternatively, control may be vested in a monetary authority free from political domination which will command confidence. We assume here, however, that the present system will be maintained.

Business Attitude Governs Rate Of Turnover Of Money

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.

Velocity of deposits outside New York City (where it is over-influenced by security transactions) is the best measure we have of the prevailing attitude of businessmen. When they are hopeful and active, the rate goes up; when they are apprehensive, the rate falls off rapidly. The effect is to magnify the concurrent expansion or contraction of bank deposits and to intensify the rise or fall of prices.

Public Attitude Governs Explosive Force Of Inflation

On occasion, widespread public distrust of the future value of money generates explosive force beneath an inflationary movement. The most extreme instance is the wild flight from the mark of the German people in the final stage of their inflation of 1923. However, the tendency to get rid of money by exchanging it for property appears in a milder form whenever prices begin to go up perceptibly—in fact, is plainly manifest right now in this country. The German experience was so glaring and has been so widely publicized that **it has made great masses of people throughout the Western World inflation-minded.**

This state of mind is another new danger in the post-war situation. In both Germany and France inflation began during World War I and developed after the armistice rather slowly at first—indeed, was thought to have been checked more than once. The movement in Germany did not culminate until 1923; and in France, not until 1926. But it would be unsafe to assume that post-war inflation in Europe or America would have to follow a similar schedule. Once it gets going, **its progress is liable to be much faster than in previous cases.**

Inflation Is a World-Wide Problem

Inflation in other countries will have a great deal of influence, through exchange rates and competitive prices in world markets, on our own price structure. We cannot discuss the subject here beyond remarking that the European situation in respect to inflation may not be as bad after this war as it was after World War I; but it will be bad enough. In Asia the situation will be much worse. There has been a big expansion of currencies in the Near East and in India. The acute inflation in China has gone so far that the government is collecting some taxes in foods and other products rather than in money.

II. IT CAN HAPPEN HERE

Most Americans refuse to believe that we are liable to suffer from the same economic ills that afflict other peoples. And, in fact, we have been lucky enough, as a rule, to evade the full consequences of economic blunders. That is because we have enjoyed until recent years the immense advantage of **an expanding economy** which easily repairs losses and sweeps aside mistakes. Unless we regain that advantage after the war much more quickly than now seems likely, we cannot reasonably expect to be immune from a hard attack of drastic inflation.

As in previous reports, we will start with the hypothesis that the war in Europe will be finished before the close of 1944 and in Asia about a year later; but large-scale military expenditures, we assume, will go on indefinitely. In the event that active warfare ceases much earlier or much later than these assumed dates, the estimates below will have to be modified accordingly.

Price Movements in Wartime

To orient thinking on this question, it will be helpful to review what has occurred during and shortly after other great wars. Dr. Henry Oliver, of Yale, has assembled the data below on wholesale prices in the three great conflicts since 1790 prior to the present war.

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 1929 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 far 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%
Neutrals	
Sweden	71%
Switzerland	97%

*Up to Dec. 1942.

Plainly, price controls in the Axis countries, particularly Germany, have been rigorous; in the Anglo-Saxon countries, much more effective than in the earlier wars; and in the two neutrals, relatively weak, although Sweden has promulgated what would appear to be a well-devised price control system.

On its face the record in this war might be thought reassuring. But Professor Slichter has pointed out that **the more strongly goods are rationed and prices repressed during the war, the greater will be the force of pent-up demands and accumulated savings when war ends.**

This observation is reinforced by the fact that during World War I, Germany clamped down prices, after an initial spurt in the first year, and held them steady until late in the Spring of 1918. But when the real rise started this wartime repression gave way like a burst dam before the onrush of irresistible inflation.

Since our own entry into the war, and especially since May, 1942, most wholesale prices in this country have been maintained on nearly a dead level. Only the prices of farm products (up 26%) and to a lesser degree the derivative prices of foods (up 15%) have gotten out of hand.

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.

The Money Supply in Two World Wars

We can get further light on what is now going on from the accompanying comparison with 1914 to 1920. The question marks in the two tables we shall try to fill in a little further on in this report.

TABLE 1—A COMPARISON OF MONETARY EXPANSION

(The Roman numerals at the heads of columns refer to World Wars I and II, respectively. Figures are in billions of dollars)

	—Currency—		—Deposits—		—Total Money—	
	I	II	I	II	I	II
At the outset (1914 or 1939)	3.5	7.0	18.5	54.0	22.0	61.0
Four years later (1918 or 1943)	4.5	17.1	27.9	88.4	32.4	105.5
Increase from outset	28%	145%	51%	64%	47%	75%
Six years later (1920 or 1945)	5.5	?	37.3	?	42.8	?
Increase from outset	57%	?	102%	?	95%	?

TABLE 2—A COMPARISON OF BANK ASSETS

	Loans and Discounts		—Investments—	
	I	II	I	II
At the outset (1914 or 1939)	15.4	21.3	5.9	28.3
Four years later (1918 or 1943)	22.5	*23.9	10.0	*54.2
Increase from outset	46%	12%	69%	90%
Six years later (1920 or 1945)	31.0	?	11.1	?
Increase from outset	100%	?	88%	?

*Dec. 31, 1942.

Meanwhile, two points are especially worth noting. First, monetary expansion has been proportionately much larger this time than it was twenty-five years ago. There is a big difference between a 47% rise in 1914-18 and a 75% rise in 1939-43. Second, the rate of expansion in 1914-20 accelerated greatly as it approached its climax. The volume of increase was about the same in the last two years as in the first four years. This is a characteristic of inflation to be kept in mind.

We can get a clearer comparative view by going back to the points of origin of the gains in deposits, as shown in Table 2. It would be hard to find a more striking picture of the difference between the two periods in government finance and in banking practice.

In the first World War, the Treasury was able to sell bonds mainly to the public and leaned lightly on the banks. The expansion of deposits was based on commercial loans and discounts. At the present time, on the other hand, loans are on the same level as twenty-five years ago, while investments, chiefly in governments, are more than five times as large.

This war is being financed, to put it plainly, up to about one-third of the outlay to date, **by the timeworn inflationary practice of trading government bonds for bank credits to government deposits.** Monetary expansion on this basis is far less sound and much more rapid than was the expansion of 1914 to 1920.

The comparison sketched above creates a strong presumption amounting to a conviction, in our judgment, that the coming post-war inflation will make the price rise of 1918-20 look small.

Monetary Expansion in 1941-42

We turn now to the recent record. An informative article on "Wartime Savings and Post-War Inflation" by E. T. Weiler appears in the July issue of "Survey of Current Business." The Department of Commerce deserves the thanks of business interests for presenting this factual appraisal of the inflationary threat **after the war** at a time when it is being deliberately played down by the Treasury Department. The tabulations below are abstracted from this article.

During the two calendar years 1941 and 1942 government bond purchases (in billions of dollars) were made by:

Banks	29.0	51%
Ins. companies	4.0	7%
Other corporations	10.8	19%
Individuals, including unincorporated businesses	13.4	23%
Totals	57.2	100%

The Federal Reserve Board Bulletin for July adds to the foregoing information that in the first six months of 1943 bank purchases were down to $11 billions, or 40% of the increase in government debt, while other investors bought about the same amount as in the preceding six months. So far as it goes, this is clearly a favorable development. Whether it will continue is another question.

The increase in supply of money (in billions of dollars) during 1941 and 1942 took the following forms:

Federal Government deposits went up	8.1
State and local Government deposits went up	0.6
Privately-owned demand deposits went up	14.3
Privately-owned time deposits went up	0.6
Currency outside banks	6.6
Total	30.2

Purchases of bonds by banks were obviously the chief factor in bringing about the rapid enlargement of money. Their combined loans and other investments actually decreased substantially. Setting aside minor complications, there is a strong tendency under present conditions toward fairly close correspondence between bank takings of bonds and monetary expansion.

Gross savings by individuals and corporations during the same two years were about $50 billions; of this amount 56% were invested in government bonds while 44% piled up in the privately-owned deposits and currency listed above.

Unless these unexpended balances are absorbed by heavier taxes or compulsory purchases of bonds, "savings" in the two forms here referred to will inevitably keep on growing at an accelerating rate. The **Survey** article forecasts that they will come to about $100 billions by the end of 1943.

The article is notable for the stress it places on the inflationary effects in the post-war economy of private holdings of government bonds—which we have referred to as "near-money." Corporations will use the bonds in their treasuries to finance reconversion. Similarly, individuals will feel—unless restrained by fear of a post-war depression—that their bonds are expendable for the goods they could not buy during the war.

Whenever the war bonds held by business concerns or individuals are redeemed by the government or pass into bank portfolios, they will indirectly promote further increases in bank deposits. The **Survey** article is right in concluding: "The sale of government bonds to non-banking units, even if the bonds are purchased out of current income, **is not a solution to the problem of preventing post-war inflation."** (bold face ours.)

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.**

III. HOW MUCH? WHEN?

If inflation, then, is on the way and not likely to be stopped, **all businessmen had better think hard** about the two vital questions: How high are prices liable to go? When and under what conditions will rapid price movements occur?

As a preliminary question, often asked, we have to consider whether the banking system can go on indefinitely to make large-scale purchases of government bonds. Are there not legal requirements as to reserves which will effectually check monetary expansion?

No Limits in Sight

To this question we get a hair-raising reply in a recent article by Prof. James C. Dolley, of the University of Texas. He figures that the Federal Reserve Banks, by utilizing their free gold under existing reserve requirements, could expand their deposits by $33 billions. If the Federal Reserve System, as a unit, were to devote this buying capacity to open market purchases of bonds now held by commercial banks, thereby enlarging excess reserves, the banks could take from the government $165 billions of bonds.

But this is only the beginning. The Federal Reserve Board of Governors have authority to reduce the reserve required of member banks, and this would raise their bond-buying capacity to $321 billions.

Finally, the Federal Reserve Banks could carry their reserves in lawful money instead of gold, which would enlarge the possible purchases of member banks **to $834 billions.**

Evidently the laws governing bank reserves are liberal enough as now written to provide the Treasury with ample cash—provided, of course, that prices do not skyrocket faster than loans.

The way has now been cleared for some crude calculations of the probable extent of monetary expansion through the rest of the war.

Perhaps $200 Billions at War's End

Taking the simplest question first, we have seen in Table 1 the extraordinary rise in currency—now almost double the volume at the end of 1940, which was itself a record-breaker. The causes are not wholly clear. Whatever they may be, it is reasonable to expect that the demand for pocket money will gradually slow down and will reach its top not far above $20 billions.

The next question is the probable size of deposits. Forecasts of war expenditures, if the fighting continues in Europe through 1944 and in Asia through 1945, indicate that the public debt at war's end will be between $275 and $300 billions—or, let us say, $175 billions more than the $107 billions at the beginning of this war.

If the banks have to take 50%, as in the past, new deposits of $87.5 billions, more or less, will be created. Adding this sum to the $88.4 billions in December, 1942 makes the total of bank deposits at war's end somewhat over $175 billions.

We still have to take into account currency to be in circulation, which we have placed at somewhat over $20 billions, making the grand total of the money supply $195 billions plus—or we

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Public Utility Securities

Engineers Public Service

Engineers Public Service has recently topped the list of the day's "active leaders," reaching a three-year high of 7⅞. The company recently issued its statement for the twelve months ended July 31st, showing consolidated share earnings of $1.45, compared with $1.04 in the previous period. System gross was $81,086,723 against $69,971,961 in the earlier period, a gain of nearly 18%.

Engineer's properties are widely scattered, in Washington, New Mexico, Wyoming, Missouri, Iowa, Kansas, Texas, Louisiana, Georgia, North Carolina and Virginia. The small Key West, Florida, property was recently disposed of and the equity interest in Puget Sound Power & Light is being reduced from almost 100% to 3%, in the September 13th reorganization of that company. The interest in Western Public Service (Wyoming) has also been largely disposed of, although one small property is apparently still retained. The more important properties remaining in the system are the following:

	1942 Rev. (Millions)
Virginia Electric & Power	30
Gulf States Utilities	13
El Paso Electric	5
Savannah Electric	4

Because of its widespread distribution, the SEC last October gave the company a year to divest itself of all properties except Virginia Electric & Power, and even that company was ordered to dispose of its gas and transportation business. Engineers appealed to the Federal courts, and for a time it appeared that its case might be the first to reach the Supreme Court, as a test of the constitutionality of the Utility Act. The company employed Prof. Waterman of Michigan University to make a statistical comparison of holding company systems with independent utility companies. The resulting 180-page study, based on a scientific tabulation of available data, made a strong case for the holding companies, presenting evidence to show that consumers and investors in the subsidiaries are as well treated as those in the independent companies. The SEC refused to accept the study in evidence. The company's appeal was argued before the U. S. Court of Appeals for the District of Columbia last May, but since that time Judge Fred M. Vinson had resigned to take over Mr. Byrnes' old job in the office of Economic Stabilization. It may therefore prove necessary to re-argue the case.

Engineers had apparently decided to comply partially with SEC orders. Like other holding companies, it is trying to retire senior securities, which consist of three issues of preferred stock, totalling about 418,000 shares (there are 1,908,968 shares of common). However, the SEC last February refused to grant the company permission to acquire some 35,000 shares of preferred stock, with some of the cash obtained from sale of Western Public Service properties. The commission suggested that the money should be invested in subsidiaries to permit them to reduce their debts and improve their position. More recently, Engineers has asked permission to dispose of its investment in El Paso Natural Gas (not a subsidiary) by inviting preferred stockholders to tender their stock in exchange for El Paso common, plus cash. It was estimated that this might retire about 25,678 shares. The SEC has not yet rendered its decision.

Engineers obtains the greater part of its parent company income from common dividends, to which Virginia Electric and Gulf States Utilities are the biggest contributors. In recent years Engineers has taken out enough to pay its own preferred dividends and leave about 50 cents a share on its own stock, but in 1942 dividends were sharply reduced and only 6 cents was reported on a parent company basis (as contrasted with 96 cents on a consolidated basis).

However, there are no important "blockages" of income (Puget Sound's blocked earnings are already excluded from the consolidated statement, in anticipation of loss of the equity in September) and large additional dividends could probably be drawn from subsidiaries this year, if desired, since cash needs for construction requirements should no longer be pressing. However, it is unlikely that dividends will be forthcoming on Engineers common stock, since cash will doubtless be devoted to retiring preferred stock. Eventually, if the SEC will permit retirement of the preferred stocks on an exchange tender basis—which method is gaining in popularity as a practical solution—there should be worthwhile equities remaining for the common stock. Standard & Poor's recently estimated the liquidating value of the preferred stocks at 149, and the common at 11.

Tomorrow's Markets Walter Whyte Says—

(Continued from page 1000)

sisted in disregarding war news. I can't explain it. I merely report it. It is obvious the market is more concerned with developments behind the war front than events on the battlefield. This naturally brings the whole thing down to the post-war world. And right there you come up against a stone wall that no amount of battering can break down.

* * *

On one hand you have a Churchill who said he does not intend to participate in any break up of the British Empire and on the other hand you have a Wallace who wants democracy brought to everybody in the world. Both objectives cannot be reached. They are both antagonistic to each other. Presiding over the post war plans we have a mentally bankrupt State Department. Interwined are the proponents of a "soft peace" and those who follow the line of "unconditional surrender." Behind all these come the befuddled businessmen who want to plan for the future but haven't the faintest idea what the future holds for them.

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The market reflecting all these currents and cross currents acts accordingly. For the market in its own way merely mirrors the opinion of the best informed. And the best informed are looking at the market and the conditions it reflects with as much puzzlement as you and I.

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Technically the market has broken its long bull market trend when it penetrated the 135 level last July. Since then it has rallied to just under 140 then reacted again to about the 135 point. From about the middle of August to the present prices have crept up to where today they are back to about the 138 figure. This performance has caused the pessimistic inclined to feel that the old highs will again be penetrated.

* * *

Unfortunately the market seldom follows mass opinion. The price trend is coldly realistic. And present day realism calls for a belief not in highfalutin ideologies but in hard practical solutions. I don't think these solutions will make for immediately higher prices. It is for that reason last week's column advised the abandonment of long positions and the cancellation of buying orders not filled.

* * *

Taking a long view, the market will probably go higher. But before that happens a reaction which can take the entire rally away and add to losses seems indicated. So even if I think prices will eventually go higher I see no point in sitting through a reaction. When this reaction appears will be ample time to do buying. Offnand I would say that the market has already made a temporary top and that the reaction will carry the averages down to about the 130 level.

A.R., Minneapolis, Minn. When advising buying, with a stop I mean for the stop to act as a safety valve. Under present conditions almost anything can occur and to hold a position without allowing for a level beyond which it would be unwise to hold would be the height of foolishness. In Borg Warner, which you cite as an example, the stock was a buy if available at 32. But it would no longer be attractive if it broke 31. For in breaking that figure it would indicate, if not an immediate reaction, then a period of dullness in which money would be needlessly tied up.

* * *

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.]

Railroad Securities

(Continued from page 1001)

for 7½ months, probable further increase in labor costs for both operating and non-operating union personnel, and further tax increases (86% in the first six months), earnings should reach a new peak in the company's history, possibly as much as $32 to $35 million, again excluding the Omaha.

Without taking any adjustments for retirement of debt with large cash resources, earnings since 1940, with 1943 estimated, as applied to the proposed capitalization, work out as follows:

	1940	1941	1942	1943 Est.
1st mtge. interest—times earned	2.61	4.17	6.21	6.58
Income interest—times earned	0.91	2.29	4.12	5.82
Overall coverage	0.96	1.53	2.28	2.78
Earnings per share—preferred	---	$5.20	$13.29	$18.69
Earnings per share—common	---	0.24	8.23	13.58

Such coverage as shown in the above table is probably greatly underestimated, due to the incidence of cash. The North Western as a consequence of war swollen earnings of recent years, has built up its cash to a point where as of June 30, 1943, gross free cash totalled $82.9 million in contrast to $37.2 million on June 30, 1942. By gross free cash is meant cash, temporary investments, special deposits, and receivables in excess of a year ago, less tax accruals for both local and Federal purposes. Again these figures do not include the Omaha, whose gross free cash as of the same date was in excess of $8 million. For North Western alone, gross free cash should reach well over $100 million by the 1943 year end. Space does not permit a detailed projection of the possible utilization of this cash, but it would appear that all senior debt other than $55.7 million new 1st 4s, and equipment trust certificates, might be retired and as much as $25 to $30 million cash remaining over and above working capital needs, used to retire possibly as much as $50 million par value of income 4½s. Brief comment on the each new security to emerge from reorganization follows:

1st 4s, 1989 (94). If our two assumptions are correct, namely that all debt other than $55.7 million of the new 1st mtge. 4s and the equipment trust certificates are to be retired with surplus cash funds, and that post-war earnings available for charges will range between $10 and $20 million annually, then it is statistically demonstrable that these new first mortgage bonds are entitled to a rating higher than those of the Union Pacific and equal to those of the Chesapeake & Ohio. When seasoned, we expect this issue to rank among the highest grade railroad mortgage bonds outstanding.

Income 4½s, 1999 (49). The status of this issue investmentwise depends to no small degree on the correctness of our assumptions mentioned in the preceding paragraph plus the correctness of our projection of the use of some $25 to $30 million of cash funds to retire approximately $50 million of the $105 million of these bonds to be outstanding immediately following reorganization. Speculative possibilities of this issue lie in (1) the impact marketwise of the utilization of this cash if used to retire bonds, and (2) the improvement of the bond's quality if such an amount can be retired as suggested and fixed charges consequently reduced from $4.7 to $2.5 million. If realized, this should permit, after reduction of $2.5 million for the capital fund, of an overall coverage of 1.5 times even in a depression year, a coverage which, prior to the loss of rail credit, permitted junior rail issues to sell at par. Should such a coverage be actually achieved, the investment rating of the bond should be satisfactory, despite the absence of a fixed coupon. These income bonds appear to offer uncommon speculative attraction.

Preferred (40). Arrears on this issue will total $14.60 per share at the end of 1943, and assuming delivery of the new securities early in 1944, these arrears should be paid on April 1st. Such a payment is considered as a return of capital by the Treasury Department, of major importance to the investor in the current period of high tax rates. If correct in our projection of use of cash, sufficient debt senior to the preferred might well be retired to permit of earnings of roughly $2 per share in a depression year and between $7 and $10 a share in a year of marked industrial activity. Under no circumstances can the stock be labeled other than highly speculative, but for speculators not subscribing to a short war thesis, especially as the conflict with Japan may last a not inconsiderable time, this issue may offer some appeal, especially as a long war with Japan insures earnings of between $30 and $35 million annually for the North Western with from $10 to $20 million available for debt retirement, thus improving the position of the stock still further.

Common (18). This issue is admittedly far removed from any investment status. Even with tremendous totals of debt retirement projected, there is insufficient earning power for the stock except in boom periods, unless of course the war should continue for many more years than now seems likely, and further sizeable debt retirements be undertaken.

It must be admitted that any issue having voting power in such a large system has some measure of residual value. However, such value is admittedly quite small at the present time despite abnormal earnings of between $13 and $14 per share. This is an issue essentially for the nimble speculator.

Veteran Bank Men Cited By Brown Bros. Harriman

Thatcher M. Brown, senior partner of Brown Brothers Harriman & Co., 59 Wall St., New York City, presented a watch to William H. Hands on the occasion of the latter's 50th anniversary of employment with the bank, which coincided with the 125th year of the institution's founding. Howard P. Maeder and Herman Sachtleben, who have been with the banking house for 40 years, were also presented with testimonial watches.

DIVIDEND NOTICES

DIVIDEND NOTICES

Canadian Pacific Has Interesting Possibilities

The Canadian Pacific Railway Company offers interesting possibilities according to a report prepared for Penington, Colket & Co., 70 Pine Street, New York City, members of the New York and Philadelphia Stock Exchanges. Copies of this interesting report, discussing the situation in detail, may be obtained from the firm upon request.

Gisholt Co. Interesting

Gisholt Machine Co. offers an attractive situation, according to a memorandum prepared by Herzog & Co., 170 Broadway, New York City. Copies of this interesting memorandum may be obtained upon request from Herzog & Co.

Municipal News & Notes

Only 10 of New Jersey's 566 municipalities are not operating on a cash or "pay-as-you-go" basis in accordance with the State's cash-basis laws, according to State Treasurer Robert C. Hendrickson and Alvin A. Burger, research director of the New Jersey State Chamber of Commerce.

In an article written jointly and published in the current issue of "The National Municipal Review," they assert the financial standing and general administration of New Jersey's municipalities and county governments have undergone a process of improvement "probably unmatched by any other State in the Union."

They declared the gross-debt burden of municipalities, counties and school districts of the State declined from $1,212,000,000 in 1932 to $810,000,000 in 1942, a reduction of almost one-third, which they said compared with a nation-wide government gross-debt reduction of 8.5% in the same period.

In 1934, they said, there were 94 local government units in widely varying degrees of debt default. Today, they stated, there are only four small municipalities in default.

The cash-basis laws were enacted in 1934, 1936 and 1938.

Chicago School Board Defaults Part of Int. Coupon

The Chicago Board of Education defaulted 1/11th of the coupon due Sept. 1 on its outstanding issue of $5,500,000 of refunding 4¾% bonds, dated Sept. 1, 1934, and due Sept. 1, 1954. Of the $23.75 coupon due on each $1,000 bond, the board paid $21.59 and passed payment on $2.16.

Action of the board in paying only 10/11ths of the coupon is in line with previous expectations and results from a decision handed down by County Judge Edmund K. Jarecki last July. The court in a taxpayers' suit ruled in effect that 1/11th of the $5,500,000 issue was invalid.

A month ago the board defaulted on the entire coupon due Aug. 1 on its outstanding issue of $900,000 of refunding 4¾% bonds, dated Feb. 1, 1935, and due Feb. 1, 1955. This default also stemmed from Judge Jarecki's decision.

One-eleventh of the $5,500,000 issue and the entire $900,000 flotation were sold to refund bonds which originally had been issued in 1931 to pay off 1928 and 1929 tax anticipation warrants of the board.

In his decision, Judge Jarecki held that tax warrants could be redeemed only from the proceeds of taxes levied in the years for which the warrants were issued.

His decision followed the principle handed down by the Illinois Supreme Court in the so-called Berman case. In that case, the State court ruled that bonds could not be issued to pay tax anticipation warrants.

The $5,500,000 issue of 4¾s of Sept. 1, 1954, embraces $500,000 of obligations that were issued to refund $500,000 of the board's second series of educational fund bonds. The latter flotation, dated Dec. 15, 1931, was authorized in the amount of $5,200,000, although only $2,213,000 were issued and sold, proceeds of which were used to pay principal and interest on 1928 and 1929 tax warrants. Of the $3,213,000, all but the $500,000 refunded in 1934 were redeemed.

War Conditions Force States to Protect Highway Funds

More legislation to prevent, abolish, or reduce the diversion of highway funds was passed during the first six months of 1943 than in any similar period of the past 20 years, the Automobile Club of America reported Sept. 7.

The pre-war trend toward the protection of highway funds was accelerated, Elmer Thompson, Secretary of the club, asserted, by war-time factors, chief of which was the serious drop in State gasoline taxes and motor vehicle registration receipts, which made protection of the remaining revenue essential. A second factor was the attempt of the States to be prepared financially for the prompt resumption of currently halted highway improvement programs just as soon as the war is over.

The club reports that the legislatures of four States, Connecticut, Maine, Pennsylvania and Washington, approved amendments to their State constitutions to prohibit the diversion of State automotive taxes from highway purposes in the future. In Maine and Washington the proposed amendments will be placed before the voters for ratification at the 1944 general elections, while passage by another legislature is required in Connecticut and Pennsylvania before the amendments are submitted to the people for their approval.

The legislatures of Arkansas, Indiana and Washington enacted statutes discontinuing all diversions from their highway funds, while in four other States the legislatures enacted laws substantially reducing the amount of highway fund money that could be diverted into other channels. These States included Alabama, Delaware, North Carolina and South Carolina.

"In the past, 43 States have diverted automotive tax money from their road funds," Mr. Thompson said, "but in recent years there has been a complete reversal of this policy by most of these States. They have discovered the use of highway tax money for other purposes than roads is both economically unsound and unpopular. The increasing number of States that have eliminated or reduced their road fund diversions is the result.

"Today 14 States, including California, Colorado, Idaho, Iowa, Kansas, Michigan, Minnesota, Missouri, Nevada, New Hampshire, North Dakota, Oregon, South Dakota and West Virginia expressly prohibit diversion of highway funds in their constitutions, and four other States have taken the first step toward amending their constitutions similarly.

"An additional 11 States by statute devote their automotive tax receipts exclusively to highway maintenance, construction and debt service on highway bonds. In five States, although diversion still exists, the amounts taken from the highway funds have been reduced substantially in recent years.

"The need for protecting declining highway revenues and the movement to build up post-war reserves in their highway funds were important considerations in the record number of laws curtailing diversion passed in 1943. The successful experience of the 14 States which have amended their constitutions to protect their road funds also had a bearing.

"Some of this experience goes back 23 years. Minnesota, in 1920, was the first State to provide ironclad protection for its road funds, followed by Kansas and Missouri in 1928. In these States, as well as in others since, the constitutional protection of the highway funds has proved financially successful and extremely popular with the people."

Bank and Insurance Stocks

This Week—Bank Stocks

By E. A. VAN DEUSEN

In many respects choice bank stocks may be considered the aristocrats of the security market. For several generations they were the prime favorites of wealthy investors and have formed the basis of numerous fortunes. They are still prime favorites with this class of investor, but in recent years they have also been made available to a much wider section of the investing public. Recognition of the attractive investment quality of bank stocks by this wider group may be said to have started about 1918. Since then a great deal of educational work has been done, innumerable dealers all over the country have been attracted to the business, active trading markets have been developed and bank stocks have become increasingly popular with the investing public. It is true, of course, that the confidence of investors underwent a severe strain when the speculative excesses of the 1929 era terminated in an unprecedentedly ruinous market crash. New York City bank stocks, as measured by Standard and Poor's weekly index, dropped precipitously in 1929 from the October high of 660.1 to 319.1 in November, they recovered to 412.8 in April 1930, and then see-sawed down to the June 1932 low of 60.3. The total decline from July 1929 to June 1932 was approximately 91%.

In the years prior to 1929, the index climbed steadily and strongly from 66.8 in January 1918 (the start of the index) to 283.6 in November, 1928. It then, in eleven months rocketed to the aforementioned peak of 660.1. This phenomenal boom resulted, in large part, from the huge market profits which the banks were reported to be earning through their security affiliates.

Subsequent to the "Moratorium," the "Banking Act of 1933" and the "Banking Act of 1935" were enacted by Congress for the purpose of correcting some of the inherent weaknesses of the banking system. Important points included: the segregation of security and investment affiliates from banks of deposit; the insurance of bank deposits, and the elimination of interest on demand deposits. The last point is of especial significance to bank stock investors, because demand deposits of New York City member banks constitute some 90% of their total deposits and annual interest charges formerly aggregated a very substantial expense item. It is also pertinent to note that on July 1, 1937, the "double liability" of holders of the stocks of National banks and New York State chartered banks ceased, in accord with provisions in the 1933 Act and the New York State Banking Act of 1936.

So much for history and the perspective it provides. Currently there are many factors in the banking situation which point to choice bank stocks as particularly desirable investments at this time. Consider for example, the market level. Since the low of 1932 and the bank moratorium of 1933, bank stocks have advanced only moderately, and, as previously reported in this column, are today a long way behind the general market, as measured by the Dow Jones averages having appreciated only 55.6% compared with 232.6% for the latter. Strangely, too, bank stocks in April 1942 dropped back to, and even beneath, the 1932 low to an all-time low of 59.2.

New York City's leading commercial banks today have clean slates and are thoroughly sound and liquid. Their earnings are at the highest level in many years, despite prevailing low interest rates. They are invested practically to the limit and for some time now have been operating with almost no excess-reserve cushion. Such idle funds yield no revenue and do nothing to help the war effort. If funds are needed in a hurry, the banks have ample amounts of highly liquid short-term investments which can quickly be converted into cash at the Federal Reserve banks or sold on the market. As a matter of fact, considerable surprise was recently occasioned when some member banks exercised their rediscount privilege at the Federal Reserve Bank. Their deposits and earning assets are at the highest level in history, and the trend is still upward.

With regard to the Government's bond drive in September, it should be noted that commercial banks are excluded from this, but it has been stated that the Treasury plans another bond issue, probably in October, designed for the commercial banks of the country. Banks all over the country, as well as in New York City, have shown a commendable disposition to co-operate fully with the Government in its war-financing plans and to invest as fully as practicable in the Government's offerings. According to the National City Bank Letter of July, 1943, this attitude on the part of bankers "....appears to be due partly to a growing acceptance of the present interest rate structure as likely to prevail at least for the duration of the war. The corollary of this is a belief on the part of many bankers that Government bonds can be purchased without risk of loss. It is due partly also to a wider understanding of the advantages from an earnings standpoint of full investment and of reliance upon an adequate portfolio of bills and certificates for adjustment of reserve position."

As regards the post-war outlook, it appears logical to expect that for many years the volume of earning-assets, particularly Government bonds, will be maintained at a high level and that consequently earnings and dividends will be well sustained. The book-values of leading bank stocks, which have steadily advanced during the past eight years, will undoubtedly continue their upward trend. Reconversion of industry from war goods to peace goods will create, in all likelihood, a healthy demand for bank credit. In this connection it should be noted that the new Regulation 15

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Post-War Inflation— What To Prepare For

(Continued from page 1007)

might better call it something in the vicinity of $200 billions.

This is all very rough figuring, not designed for statistical nicety but simply to give some definiteness to judgments as to the extent of inflation in prospect.

The results of the figuring are likely, in our opinion, to prove **understatements rather than overstatements.** They make no allowances for rising prices during the war, which may force sizable increases in the present estimates of government expenditures at the same time that they enlarge private costs and bank balances. Nor do they allow for the anticipated resistance of the public to repeated bond-selling drives, which may make it necessary for the banking system to swallow even more than our assumed 50%.

However, we need not speculate on these possibilities. The figures, as they stand, are startling enough to give pause to any businessman who may have been inclined to think lightly of the coming inflation.

How Much "Near Money" at War's End?

So far about 40% of war bond issues have been absorbed by individuals and non-financial companies. If this proportion is maintained and if these purchases are kept intact throughout the war, the holdings of the public, excluding banks and insurance companies, at war's end will approach $100 billions. (Note that this is **on top** of the astronomical figures just given for deposits and currency.) As previously brought out, these publicly held bonds are potential inflators of money.

Another sizable source of additional money consists of instalment sales and personal loans. Credit extended to individuals in these forms is the equivalent of fresh cash turned over to them. The total of such credit at its peak in 1941 was $9.5 billions. During the war it has been severely curtailed, and this policy will presumably be enforced up to the end. In the first year of peace, however, several billions will certainly be provided for deferred purchases and other purposes.

It might be said with truth that in principle all kinds of marketable securities and all forms of short-term credit are "near money" in a like sense. However, government bonds and personal credits deserve special treatment in that they will be immediately available for financing purchases right after war's end and will be used on a big scale.

The Money Will Not Lie Idle

Even with all the enormous supply of money at hand for peacetime spending, it might in theory lie idle. During the stagnant 1930's it is argued, plenty of money was available for business expansion, yet was not put to work. Why should we not anticipate a similar state of affairs after the war?

The analogy does not stand up under examination. The easy money of the 1930's, except for a small part of the potential supply, never came into being. The incitements to inflation were temptingly displayed but businessmen walked away from them.

The money supply at war's end, on the other hand, **will be existent—ready for spending.** The currency will be in someone's pocketbook or till or concealed in the mattress. The bank deposit will be credited to someone's account. Making use of it will be the normal thing to do. In fact, the urge to spend, repressed during the war, will probably be too strong to be even momentarily checked.

Professor Slichter expresses a different view. Here is his description of the after-war scene:

"For six or twelve months, while there is considerable unemployment and while millions of people are uncertain about their employment prospects, the conversion of this great quantity of liquid assets into goods will occur at only a moderate rate. As people become reestablished in peacetime jobs, however, they will be eager to spend their wartime savings. At this time, it will be extremely difficult to prevent a disorderly price rise similar to the rise after the first World War."

It is possible, of course, that there may be a brief period of hesitation, but we see no reason to suppose that it will continue as long as Slichter anticipates.

A more plausible expectation, we think, is that thousands of business concerns will move speedily into reconstruction of plants or increased production. At the same time, many consumers will buy at once whatever they can get. The ripple of activity and rising prices thus started will soon encourage other producers and consumers. Within a very short time prices will move up. The first stirrings of inflation will be evident to everyone.

Probable Effects On Post-War Prices

At this point we must make two further assumptions: (1) Once the war is over and demobilization completed, the government will make a determined effort to balance its budget and cease depending on further bond sales to finance current outgo. (2) At the same time, the Federal Reserve Board, resisting political pressures, will make full use of its powers to restrict speculative loans and to put the brakes on further expansion of bank deposits. Both assumptions, we grant, are doubtful. It is only a courageous conservative administration that can bring these things to pass. Unless they are well handled, however, the chances of getting by without a disastrous blow-up of prices are practically nil.

Even with the best national management, a great inflation seems certain. As it looks now, the money actually in existence at the close of 1945 will be **between four and five times** the corresponding amount at the height of the 1920 boom and **over three times** the amount in 1929. There will be, of course, a larger physical volume of goods to handle, but nowhere near proportionate to the larger quantity of money.

What the turnover rate will be is hard to guess; but under the impetus of eager spending by both business for re-conversion and the public for much desired goods, we can find no good reason to suppose that money velocity will be slower than in earlier boom years.

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.**

* * *

Nothing has been said in this report about price controls or other possible safeguards or remedies; nor about protective measures to be taken by individuals or businesses. These topics will be treated in the next report. [Inquiries regarding this report should be addressed to Tradeways, Inc., 285 Madison Ave., New York City.—Editor.]

The Future Of Interest Rates

(Continued from page 998)

become a gigantic savings institution, with millions of patrons and liabilities which are now about 25 billion and possibly before the end of the war they may increase this many billions more. At the present time the banks do not seem to object to the Government becoming a tremendous savings bank institution. As the owners of Government bonds in America increase it will become more and more necessary that the United States Treasury maintain the confidence of its millions of creditors. If they ever lose faith in the readiness of the Government to pay and in the stability of the purchasing power of the dollar, then we would have a tremendous run on the Government by the creditors, demanding payment of their savings in money which they in turn will wildly try to spend or invest in goods and equities.

These millions of investors in Government securities, and the prospect of more, is a tremendous force for keeping governmental fiscal policy on the straight and normal path of solvency and sanity. This fact is a gigantic one—they are voter-creditors. This is the most important trend in our nation to hold down inflation, and I hope it will not be very long until we have fifty or seventy-five million people in this country holding Government securities in small and large amounts.

Our Government has become a savings bank in a very large sense and, therefore, it seems to me that as this condition increases Uncle Sam will be on the same side as bankers in the fight for sanity and soundness in national fiscal policy. There is now some hope that we may escape wild inflation, although it is not yet certain by any means. Only a few months back I thought it was inevitable.

I agree with Dr. Anderson that interest rates are bound, in time, to work higher, and he is probably right, that the Treasury Department should now raise its interest rates sufficiently to attract investors to buy in a larger way Government bonds, so that the banks will not have to buy them. Just how this can be done, I am not sure, but do feel that it should be done. Interest rates are now too low, and I think we are headed for trouble in a similar way to the trouble we have been headed for in the past when money was scarce and interest rates too high.

During the First World War—in 1917 and 1918—the banks did not have to buy Government bonds. It was not necessary for them to buy bonds, and individuals bought them freely and they had absolute confidence in the fiscal policy of our Government at that time, and the bonds paid good interest. So far, we have not had any general flight from the dollar by the public, but there are many individual cases, some to my knowledge, that have for some years become uneasy about Government securities and money, and have made it a policy to keep all their funds invested in real estate. This, however, has not been general, and I hope that our Government will have the courage and patriotism to keep down inflation and save us from the disaster that will surely follow in the wake of wild inflation.

C. M. MALONE,

President, Guardian Trust Company, Houston, Texas.

C. M. Malone

There is no question about the fact that interest rates are too low. When any commodity gets too cheap and below cost of production and distribution you have an unbalanced condition. While banks with large deposits can make money at present rates, the small bank with $1,000,000 deposits cannot make expenses at present interest rates. The Federal loan agencies have taken the taxpayers' money and established loan agencies such as the FSA, where cost of loaning money appears to be about 33⅓%, not taking into account any losses for bad loans. It has taken $150,000,000 of taxpayers' money and organized the Production Credit Corporation, which in turn has organized some 529 Production Credit associations where the Production Credit Corporation supplies the capital and then each borrower acquires stock equal to 5% of the amount he borrows. The report of the Production Credit Corporation for 1942 shows that out of 529 associations, 245 operated at a loss if government subsidy were withdrawn. These organizations are supported by taxpayers' money and are in direct competition with the country bank.

Now with Government in business of loaning money by the billions and the Government borrowing money by the billions, they control the rate on loans and they control the rate on what they borrow, due to the fact we all feel that, regardless of rate, we should buy bonds to help win the war.

While I can see that the rate on Government bonds is low, I cannot see how our Government can increase the rate in view of the already heavy interest requirement.

As I see it, the same applies to the Government as to a corporation, or an individual. If a person owes $1,000,000 which is bearing 2% and they are needing more money to carry on, the bank would probably make a mistake to increase the rate to 3%, as the added burden would retard liquidation. When we speak of increasing interest on the billions of Government bonds, we are dealing with a very large added burden on taxpayers.

The people of this country have a limit to the amount of taxes they can pay and that limit has about been reached by the average person.

People as a whole have done their best to meet the demands of the Government and I know it has been hard on many. We should reduce our government expenses, for everything that is not essential for the war. According to Senator Byrd's reports, thousands of civilian employees are not needed by our Government. We are in Government just where business was in 1933. The Government needs to eliminate all unnecessary expense and get on a basis where following the war we will liquidate debt instead of increasing it. Therefore, I doubt that interest rates should be increased on Government bonds. What this country needs most is to eliminate Federal corporations using taxpayers' money to compete with taxpayers in business. So long as we allow the Government to organize corporation after corporation to take the business away from the taxpayers, then we can expect low interest rates, as it makes no difference to Government about the cost of loaning, as deficits are paid by the taxpayers. Business will adjust rates, in my opinion, when the Government eliminates government lending and government in business.

ELISHA M. FRIEDMAN,

New York City.

(1) "Dr. Anderson indicates his belief that interest rates are bound to work higher sooner or later."

This statement would be true if gold circulated or if paper was convertible into gold. But this assumption is not true today. We have managed money. The Treasury can keep interest rates stable, or keep bond prices up by utilizing vast funds like Social Security, sinking funds, etc. The Federal Reserve banks also are potential buyers of Government bonds. The member banks are optional buyers at the request of the Treasury or the Federal Reserve banks. Therefore it is difficult to follow Dr. Anderson's conclusion that interest rates are bound to work higher. They need not, during the war.

(2) "Dr. Anderson expresses the opinion that the Treasury ought to make rates of interest high enough now to attract investors' funds."

Warring nations raised their interest rates during war when credit deteriorated. Note the example of Germany and France during World War I, and the United States during the Civil War. If our Treasury were now to raise interest rates appreciably, as Dr. Anderson suggests, it would frighten the country, impair confidence and reduce subscriptions to new issues.

(3) "Dr. Anderson believes that the banks holding long dated governments should be allowed to subscribe for the new higher yield issues with their old bonds."

This practice was prevalent in France and Germany in World War I, because the national credit was deteriorating. But even in those countries not only the banks but the private investor had the same privilege. If Dr. Anderson's advice is followed, all the bonds owned privately would fall in market price until the bonds rose to the new high level of yields. The decline in the market value of the principal would run into the billions. If individual bondholders had to sell in distress they would incur an actual loss.

(4) "Dr. Anderson's program is suggested to insure the future solvency of the banks."

This is not a cause for worry now. If sometime in the future such a worry should arise, there are other simpler means which would not hurt the private investor. Under the Glass-Steagall Act of 1933 the member banks have the right to discount government bonds at par. This does not solve the basic problem. It merely mitigates one of the evil effects. The problem is the big debt, not the low interest rate. We are in a war. The country needs money. It is getting it, and quite successfully. Why introduce a needless complication now? No other government has followed Dr. Anderson's advice. Why should we?

There are other aspects which Dr. Anderson does not mention. Dr. Anderson's advice seems to look at one side of the picture. He thinks of the investor. But since we expect to pay the interest on these bonds, why does he overlook the taxpayer? If we end the war with a 200 billion dollar debt, every ½% rise would constitute a budget burden of 1 billion dollars more. But a mere

½% increase would not justify such a radical change of policy. Dr. Anderson asked for a 3½% rate on long-term bonds when he addressed the New York Chapter of the Statistical Association. If he still has the same idea, his advice would cost the American taxpayer 2 billion dollars per annum additional. This increase alone is equivalent to twice the maximum interest charge at the peak of the debt in 1919 and 1939. Bear in mind also that the additional 2 billion dollars of taxes would be levied on the higher brackets from which risk capital comes. This risk capital must be available to take care of our expanding economy and to avoid unemployment. Dr. Anderson's advice, therefore, simmers down to this, that the upper income brackets will pay sharply increased taxes in order to furnish slightly higher interest to the low income brackets.

If government bond yields rise from 2½% to 3½%, such a rise will break the entire corporate bond market, hurt the insurance companies, savings banks, and estates holding triple A corporation bonds. Such a decline in highest grade bond prices would have a seriously disturbing effect on the stock market. Besides, if government bonds rise in yield by 1%, stocks would fall in price in order to rise in yield by at least 2%. Under such conditions, how could the Treasury sell any new government bonds?

'Again, high rates deter risk-taking. Low rates stimulate risk-taking. Risk-taking creates employment. Unemployment will be a post-war problem.

We are living in a managed economy and Dr. Anderson is talking in terms of a free economy. Certainly wartime is no time to shift from managed money to a free capital market.

For the above reasons I think that Dr. Anderson's suggestions are unwise and impractical. They would destroy confidence in government credit. They would hurt the investor. They would increase the burden on the taxpayer especially heavily in the high brackets. They are contrary to the experience of other governments in the present war. Dr. Anderson is looking backward instead of forward. He is still thinking in terms of the first World War. To carry his thesis to the logical conclusion, why doesn't he go back to the Civil War when the investor received better than 6% on a United States Government bond?

Dr. Anderson's proposal will have the approval neither of the member banks nor the private investors, nor the taxpayers, nor the Treasury. In fact, it is difficult to imagine any group that would support these proposals. It is difficult even to understand why he makes the proposals, just now.

Wheeler Urges President To Appeal To People Of Europe

(Continued from first page)

much do not ask for anything but peace, bread and work.'

"The Pope, as you know, is in a position to have knowledge of the sentiments of the people in enemy countries as well as Allied countries.

"The above statement, coupled with the Russian offer of peace in the event that the people in the other totalitarian countries throw out their dictators and all that they have stood for, leads me to respectfully suggest to you that the time has now come for you to define unconditional surrender and appeal to the people of Europe to abandon the false path of militarism, intolerance and brutality.

"I fully believe that you, as champion of democracy and opponent of totalitarianism and tyranny, can now bring about peace in Europe and establish democracy throughout that war-torn continent. In so doing you cannot only save European civilization but prevent the future sacrifice of our own American boys as well as save the lives of thousands of innocent non-belligerents whose freedom from gangster oppression we have pledged ourselves to guarantee.

"If you do this, you will, I am sure, win the acclaim not only of every American, but the people throughout the world."

Bank & Insurance Stocks

(Continued from page 1009)

for "V" loans will enable war-contractors to utilize bank credit upon cancellation of war contracts, through permitting banks to make loans to such contractors under adequate Government guarantee.

Many of the leading banks and trust companies of New York City, as well as of some other cities, will undoubtedly be actively engaged in international trade in the post-war era. For example, National City Bank vigorously reaffirms its belief, in a recent folder, in the future of inter-American trade relationships, and points out that National City branches are located in all sections of South America prominently identified with the sources of strategic materials.

To quote Standard and Poor's: "Despite unprecedented economic changes, the principal functions of banks are not outmoded. The future position of commercial banking in the nation's business is backed by the essential nature of the services performed."

New Frontiers Of Business Development

(Continued from page 1003)

This, I should like to emphasize, is not advocated merely as a measure of tax relief but as a means of preventing or minimizing the dislocation, shock and even wreckage which, otherwise, very large sections of our economy will experience in the course of the coming transition.

"The National Industrial Conference Board has well stated the problem. I quote: 'The first step necessary to overcome existing defects is to treat corporations as vital productive untis rather than as convenient and politically safe sources of revenue. If they are also to be sources of revenue, a reasonable allowance for future contingencies is needed in computing taxable income, however unpredictable in magnitude these contingencies may be. Safeguarding their future productivity requires full allowance for offsetting all losses against taxable income.'

"Even more important than reserves for reconversion purposes, in my judgment, is assurance that excess profit taxes will be discontinued immediately upon the termination of the war. President Roosevelt has repeatedly emphasized the demoralizing effect of the emotion of fear. The apprehension which so many business executives are under today as they look ahead would be removed if capital could confidently expect to be able to retain a reasonable profit after the war is over.

"As a further necessary aid to the post-war expansion of production and employment, Congress should so amend our tax laws as to encourage venture capital. The fact should be clearly recognized that peace-time risk is taken for the sake of profit, that neither business managers nor private investors will assume financial risk without an opportunity to realize and retain legitimate profits.

"We need to keep in mind the fact that if private investors do not provide the risk capital required for industrial expansion, either society will not progress materially or the Government will supply such capital. And if government supplies the risk capital and thereby becomes the great entrepreneur, or risk-taker, the private incentive to assume risks in the hope of gain gradually dies—and the State will finally become socialistic rather than capitalistic.

"Fortunately, we see indications of a growing awareness in Congress of this danger. For example, Representative Dewey of Illinois and a former Assistant Secretary of the Treasury, is advocating revision of the Federal tax laws to the end that risk capital may be 'induced to resume its historic place in American industrial development.' He points out that our tax laws 'should be so amended as to offer an incentive for people to risk investment in new and uncertain undertakings.' Quite significantly, he urges that, 'when the war terminates and returning soldiers are seeking jobs or are desirous of setting up new enterprises themselves, our tax system should be so amended that it will **favor** these adventurers in trade and industry instead of **handicapping** their intiative.'

"Much has been said of late about unnecessary restraints upon business and capital. In this connection it is gratifying to note that the Special Committee on Post-War Economic Planning of the U. S. Senate, and headed by Senator Walter F. George, already is addressing itself broadly to this problem. At the instance of this Special Senate Committee, the Brookings Institution is making a study of governmental restrictions upon free enterprise, and at the same time is preparing estimates of the amount of Federal aid which private industry will need for post-war conversion.

"Senator George's Committee is, from my observation, making a most realistic approach to post-war planning. It is the judgment of many business leaders, and of Congressional leaders as well, that various restrictions which tend to retard industry and which will prevent healthy post-war expansion could be removed or relaxed without impairing any desirable governmental protection and without any loss of ground in the field of social advancement. Considering the quality of the Committee which the Senate has set up, we may well expect constructive results.

"A highly important matter with a vital bearing upon our post-war plans has to do with relations between employer and employee. Business and labor should be able to deal with each other without having the cards stacked against either one or the other."

With respect to the subject of renegotiation of war contracts, Mr. Schram said:

"I am going to mention another obstacle to an orderly conversion of business from war to peace. This is presented by the administrative difficulties in the renegotiation of war contracts. Here, again, Congress is intelligently seeking a remedy. I have just finished reading the testimony of Lewis H. Brown, President of the Johns-Manville Corp., who, by invitation of the Committee on Naval Affairs of the House of Representatives, discussed some of the practical aspects of this problem. As Mr. Brown pointed out, there can be no room for disagreement with respect to the principle that no one should be allowed to make excessive profits out of the war. 'Both as a matter of patriotism and in their own self-interest, members of American industry are equally agreed upon that principle.' However, the difficulties are so great from an administrative standpoint that only a small fraction of the total number of contracts subject to renegotiation has been disposed of thus far.

"In spite of the fact that those in charge of this work are men

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Calendar Of New Security Quotations

OFFERINGS

EMERSON RADIO & PHONOGRAPH CORP.

Emerson Radio & Phonograph Corp., has filed a registration statement for 175,000 shares of presently outstanding $5 par value capital stock. These are held as follows: Benjamin Abrams, 105,000; Max Abrams, 52,500, and Louis Abrams, 17,500 shares. No proceeds from the sale will be received by the company. The public offering price will be supplied by amendment later.

Address—111 Eighth Avenue, New York, N. Y.

Business—The company is a leading manufacturer of radio receiving sets for homes, and since June 6, 1942, has been engaged in the manufacture of radio and electronic equipment for the Army and Navy.

Underwriting—Principal underwriter is F. Eberstadt & Co., New York, N. Y.

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

Proceeds—All of the shares offered in the prospectus are owned by Benjamin Abrams, President; Max Abrams, Director, Treasurer and Secretary, and Louis Abrams, Director, who will receive all of the proceeds.

Registration Statement No. 2-5205. Form S-2. (8-25-43).

Offered Sept. 7, 1943 at $12 per share by F. Eberstadt & Co.

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.

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).

Bonds awarded Aug. 30, 1943 to a syndicate headed by Kidder, Peabody & Co., and White, Weld & Co. and associates on their bid of 107.56

Offered Sept. 2, 1943 at 108½ and int. by Kidder, Peabody & Co., White, Weld & Co., Eastman, Dillon & Co., Glore, Forgan & Co., Shields Co., R. W. Pressprich & Co., Equitable Securities Corp. and Laurence M. Marks & Co.

WEST TEXAS UTILITIES CO.

West Texas Utilities Co. has filed a registration statement for $18,000,000 first mortgage bonds, Series A, due Aug. 1, 1973. Interest rate will be supplied by post-effective amendment.

Address—1062 North 3rd Street, Abilene, Texas.

Business—Is a public utility engaged principally in generating, transmitting, distributing and selling electric energy in central western Texas. It also distributes water, manufactures and sells ice and, to a minor extent, conducts a cold storage business.

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

Proceeds—Proceeds from sale, together with such amount from the general funds as may be required, are to be applied to the redemption, at 105% of the principal amount, on or about 30 days after the delivery of the Series A bonds, of $18,000,000 face amount of first mortgage bonds, Series A, 3¾% of the company due May 1, 1969. The redemption of the bonds, exclusive of accrued interest, will require $18,900,000.

Registration Statement No. 2-5201. Form A-2. (8-18-43).

Registration statement effective 4:45 p. m. EWT on Aug. 24, 1943. Issue awarded Aug. 31, 1943 at 101.605 for 3⅛s to a syndicate headed by The First Boston Corp. and Harris Hall & Co. (Inc.)

Offered Sept. 2, 1943 at 102.46 and int. by The First Boston Corp. and others.

(This list is incomplete this week)

"Our Reporter On Governments"

By S. F. PORTER

We're into the drive now and the story of this campaign is so obviously the big news of the day that talking about any other subject seems rather futile. . . . This is the day it begins. . . . For a minimum of $15,000,000,000. . . . All from non-commercial bank subscribers. . . . The tumult and the shouting surrounding this thing are without precedent. . . . Glamour, patriotism, bargain, pressure—name your word, choose your favorite selling method and you'll find it's being used in this terrific money-raising venture. . . . In fact, looking around in this New York district at the number of bond salesmen, one is tempted to quip that there are almost more salesmen than potential purchasers! . . .

But that's news you can get in your daily newspaper and stuff you're hearing on all sides. . . . To get into the more technical details, in which you are vitally interested, the first important point is that the Government bond market is still acting beautifully. . . . Prices holding up. . . . Volume staying at a small, comfortable level. . . . Little selling in the last week, just as little buying—but that's entirely logical. . . . The tax-exempts have been divided, with the longs holding firm and the shorts under slight pressure due to reported liquidation by savings banks. . . . Again, a natural development which will continue for a little while longer and then fade into the background. . . .

There's considerable gossip about the possible difficulty of raising the whole $15,000,000,000, but in the opinion of this observer, not only will the $15,000,000,000 goal be achieved but it also will be surpassed. . . . Maybe by a billion or two, if the salesmen exert as much effort as it appears they will. . . . Individuals will be hounded into buying and as for corporations—well, if one is discovered with surplus uninvested cash, it will have to do some tall explaining to get through the month. . . .

And now let's get into the other stories. . . .

THE BANK DRIVE

Commercial banks must wait until this public campaign is over, of course, before they can get their offering. . . . And as remarked here previously, Secretary Morgenthau has been smart in omitting any mention of the size of the commercial bank offering until after he knows how the third war loan is going. . . . That's shrewd because, obviously, the size of the bank deal will depend primarily on the oversubscriptions received from individuals and corporations. . . .

Morgenthau also has neglected to say specifically that the banks will get 2s due in 1953/51 and ⅞% certificates with exactly the same terms as the non-bank investors are receiving. . . . But we may take for granted that he'll tender the same securities because it would be too much trouble to change the terms just for a month's maturity difference or something similarly minor. . . . Also, as far as size goes, it has been estimated that the Treasury will need $6,000,000,000 over and above the $15,000,000,000 to be obtained this month to cover its expenses for the rest of 1943. . . . Assuming that half this $6,000,000,000 comes from war bond sales during October, November and December, the Treasury would be compelled to raise $3,000,000,000 through the commercial banks. . . .

That's a logical total. . . . Although one guess is that the bank offering in October may be $4,000,000,000, just to keep it at the same level as the April allotments. . . . (At that time, the banks were allocated $4,250,000,000 of 2% bonds and certificates.) . . . If Morgenthau wanted the same pattern again, he would offer $2,000,000,000 of the new 2s and $2,000,000,000 of the ⅞s in early October and get some extra cash to build up his working balance. . . .

A word of caution may be advisable at this point. . . . The banks are going to be the only ones able to buy the 2s and certificates during the period the books are open to them. . . . There'll be no aid to oversubscription from other sources and speculators, therefore. . . . So don't look for a heavy oversubscription total. . . . Don't overbid, thinking you need do so in order to get the amount of 2s you want. . . . You'll probably get close to your order without doing anything but placing a subscription for the exact total you'd like to have on your books. . . .

New Frontiers Of Business Development Seen By Schram

(Continued from page 1011)

of high ability and have worked with all possible diligence, the progress is so slow that business and industry have become seriously disturbed. As a practical solution, Mr. Brown proposed what seems to me to be a simple method of screening out those contracts which do not need to be renegotiated. He suggested that "where a company's profits after taxes are not greater than the excess profit credit, they are not excessive and need not be renegotiated; that where a company's profits after taxes are greater than the excess profits credit, they may be excessive and should be renegotiated."'

"It goes without saying, that intelligent planning in industry must be based upon fundamental facts which are as accurate as it is possible to obtain. The speedy conclusion of renegotiation, together with light on any relief factors which may be present, would give great encouragement to business executives and release their energy for other urgent tasks.

"In this same category is the problem of the cancellation of war contracts. Here, again, we must give credit to the Government for its recognition of the need of a definite and sound policy and for some steps already taken in that direction. This question is still a source of grave anxiety for business and industry, however, and will continue to be until the policy has been fully developed. Speed is of the essence."

In his further comments, Mr. Schram stated:

"In addition, Congress and the executive departments should, without unnecessary delay, decide upon the policy that is to be pursued in disposing of Government-owned or Government-financed industrial plants and of inventories in the possession of Government or in process of accumulation for the account of Government. Many of these plants compete directly with private enterprise. Some of them will be useless after the war, others can be converted to the production of materials useful in a peace economy. Obviously, much of the funds invested in these plants and inventories by the Government will have to be written off and charged to the cost of prosecuting the war. I hope that, under wise legislation, Government will utilize the services of able business men in this important process of liquidation. If this problem is not properly dealt with, many sections of business, large and small, will be endangered.

"The method by which men and women in the military establishment and in Governmental employ are demobilized should, of course, be geared to the capacity of private enterprise to absorb them. We need to know, as soon as possible, what the Government's plans are with respect to this vital phase of our transition from a war-time to a peace-time basis.

"We all realize that government necessarily will have to assume responsibilities which were not in the distant past considered to be its concern. The country should have, however, as soon as possible, a clear indication of the type of public works which the Government proposes to undertake in the post-war period. Considering that a vast field—road building, slum clearance, bridges, the construction of essential public buildings and the like—has been largely neglected in recent years, there would appear to be no need to extend make-work activities beyond these spheres. In other words, public works of a purely luxury nature should not be necessary.

"Except to the extent that it may be necessary to supplement private industry during the emergency transition period, the objective should be a minimum of persons employed by or at the instance of Government. Private enterprise should be given every possible encouragement to absorb bona fide employables as speedily as possible."

Discussing the Lend-Lease program, Mr. Schram expressed his views as follows:

"It would inspire confidence if the country were assured that, with the exception of vital military aid and relief, the Lend-Lease program is to be administered on the concept that the greatest aid we can extend to the destitute peoples of other countries is to help them to help themselves. Alone, we cannot feed, clothe and otherwise support the world. On the other hand, to the extent that poverty and want arose out of the war, we all agree that we should contribute our proportionate share of the goods which are needed to carry destitute people through the season during which arrangements must be made for the resumption of production of foodstuffs and other necessities."

Mr. Schram told the Group that, "in what I have said, I have tried to outline a pattern of Government attitude which would provide the environment under which our economic system can operate most efficiently and productively. In my judgment, such an approach to our problems would serve to recreate the enterprise system in full flower after we have finished with the sorry business of slaughter. What business and enterprise can do for a war-impoverished world challenges the imagination."

Mr. Schram observed that "the very large increase in the savings of the people, their War Bond investments and their extensive liquidation of installment debt and other financial obligations, promise for business a post-war domestic market vastly larger than any we have known heretofore." Earlier in his remarks he stated that, "to my mind, a country-wide ownership of U. S. Bonds is the best possible insurance that can be taken out for the preservation of our economic system." On this point he further said: "It is most important that all of our people have an interest in the full faith and credit of the United States of America.

"The safest protection against devaluation or dilution, or a policy of inflation that would give to the returned dollar a purchasing power less than that of the dollar originally loaned, is the possession of Government securities by all of our people. This is also the surest possible restraint which could be put upon Governmental extravagance and the strongest possible deterrent to unsound national policy."

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